# EXHIBIT 7



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Every customer is unique. Each has distinct needs, and each defines value in a different way. By recognizing and embracing this fact, UnitedHealth Group has continued to achieve record growth. We combine outstanding clinical insight with consumer-focused services and innovative technology tools to enable, facilitate and advance optimal health for everyone. And in so doing—just like the customers we serve—UnitedHealth Group has established itself as truly one of a kind.

"We have never embraced a 'one size fits all' concept for health care Instead, we have aligned our businesses and efforts along definable market segments that focus on unique issues and needs."



William W. McGuire, M.D.

ast year, I wrote that our strong 1999 performance "suggested the emerging potential" of strategies we initiated in the early 1990s and dramatically advanced three years ago when we repositioned UnitedHealth Group into independent but strategically aligned, market-defined businesses. This year's outstanding performance documents that we delivered on that potential—advancing health within a framework of sound business principles.

With each of our business segments reporting record results in the year 2000, we continue our progress as one of the most dynamic growth companies in America. In the year 2000:

- Revenues rose to more than \$21 billion, reflecting significant market share gains with strong and balanced growth in all business segments.
- Earnings per share grew 32 percent, with increasing diversification in income.
- Cash flows from operations exceeded \$1.5 billion, a 28 percent increase over 1999.
- Return on equity rose to 19 percent for the year and 21 percent in the fourth quarter.
- Our companies added more than 3 million new individual customers, and now serve nearly 35 million Americans.
- · Our share price increased more than 130 percent, following a 23 percent increase in 1999.

UnitedHealthcare increased same-store revenues 13 percent by offering simple, convenient access to comprehensive benefits and services to nearly 8.5 million Americans.

Ovations achieved revenues of nearly \$4 billion by successfully addressing the health care challenges of our rapidly aging population through an innovative portfolio of programs and services.

Uniprise realized striking market share gains and revenue growth of 15 percent by utilizing innovative technology to provide simple and effective solutions to large, multi-location employers with complex employee service and benefit needs.

Specialized Care Services generated revenues of \$974 million in 2000, a dramatic 34 percent increase over 1999. Specialized Care Services responds to customers' demands for more diverse resources to improve their lives by organizing access to dental, behavioral, vision, transplant and other specialized care networks, and information resources within the ever-expanding and diversifying health and well-being marketplace.

Ingenix generated \$375 million in revenues in 2000, a 45 percent increase, by providing knowledge and information tools to help physicians and care providers, health insurers, other health organizations, and pharmaceutical and medical device manufacturers improve research and performance on behalf of those they serve.

We must build upon past successes. So even as we continue to strengthen our overall performance, we also continue to critically assess the health care system, the needs of those who use it or are part of it, and our own contribution to advancing this important social marketplace.

#### THE HEALTH CARE ENVIRONMENT

Our American health care system is the most sophisticated, care-intensive and technology-rich system in the world. It is not, however, an environment that is systematic by nature. Health care delivery is profoundly fragmented — among hospitals, clinics, primary care and specialist physicians, and drug and medical device manufacturers. Care providers range from multi-billion-dollar enterprises to small, localized practitioners, each existing as freestanding, localized assets and resources usually accessed at the discretion of the consumer. From a consumer's perspective, the marketplace can be complex and confusing.

Today, our society spends roughly 14 percent of its gross domestic product on health care-related services and products, and that percentage will grow. With health care costs escalating well above the internal growth rates of the population and economy, there remains significant pressure to eliminate waste and maximize productivity within all aspects of health care. Yet, while other sectors of American industry have made significant advancements in productivity and technology, the national health care economic sector has yet to advance meaningful productivity improvement or extend its reach into our entire population.

Adding to the challenge, the use of health care services is rising dramatically, and we expect the land-scape will become increasingly complex. The increasing burden of chronic disease in an aging population with higher health expectations is resulting in greater complexity and higher costs. Demand is expanding as consumers are empowered to take greater control over their health decisions, just as they are overwhelmed with information and commercial influence from the media, the Internet and direct-to-consumer advertising. Expanding scientific knowledge such as that associated with the human genome, new medical technology, and new pharmaceutical and device technology, offers exciting opportunities to improve health, but also poses challenges for cost-effectiveness and appropriate application. And as always, we need to continue to be vigilant about both the under-use of necessary and appropriate health care interventions, as well as the equally concerning use of unnecessary or clinically improper interventions.

Decades of sweeping attempts to rationalize the system—by well-intentioned participants, each from their own point of view—have been unable to optimize the value and the potential within the American health system. In working to improve health care efficiency, the marketplace has not yet

established the optimal balance with the strong consumer values placed on choice and access. Health care, like other areas of social commerce, should be based on principles of freedom and market choice, and hence, no single solution will work for everyone.

# OUR ROLE-MAKING HEALTH CARE WORK MORE EFFECTIVELY

We have never embraced a "one size fits all" concept for health care. Instead, we have aligned our businesses and efforts along definable market segments that focus on unique issues and needs. Doctors in small groups have a different business approach than large medical practices. Fortune 100 employers and small businesses purchase health services differently. Young families have different needs than people over the age of 50. Our challenge is to adapt component pieces to create simple, functional health care systems that serve the unique needs of each constituency.

With core competencies in organizing care providers and resources into better-functioning health networks and systems, using databases, analyses and the resulting clinical intelligence to inform participants in health care, and developing and using technology to improve quality and lower costs of administrative functions, UnitedHealth Group is well positioned to add value to the marketplace. But it is our fundamental values—which span market segments and guide our strategic thinking—that truly fuel our continued success.

We believe in choice and direct access to broad, diverse and fully qualified care providers and health resources. Accordingly, we offer a full range of option-rich benefit designs that enable customers to make choices based on their unique needs. This partly explains why, in the past 12 months, we added more than 2 million new individuals to the list of those we serve through UnitedHealthcare and Uniprise. This represents an unprecedented level of growth entering 2001. Today, we serve more than 16 million individuals for general medical care and specialized needs, and an additional 18 million people through Specialized Care Services alone. In addition, by leveraging the buying power of nearly 35 million Americans, UnitedHealth Group can access the best resources at the best prices—making care more affordable for the consumer and fair to the care-giving community.

We believe in simplifying the health care experience and have made significant and sustained investments to do just that. We have adopted streamlined, more consistent processes and designed simpler, more understandable products and services, and we are using advanced system technologies to automate and speed health care interactions, simplify administrative functions, advance information and lower costs. Uniprise is realizing record growth and client satisfaction with technology solutions such as EmployerLink Net, which gives employers and consultants instant, online, real-time access to add, update or verify health benefits and data. EverCare, an Ovations business that serves approximately 19,000 frail, elderly people living in nursing homes, is introducing technology called EverLink to make patients' clinical information readily available to the nurse practitioners and physicians caring for them. And the Internet has become a major tool to serve customers and partners. Myuhc.com, for example, gives individual customers access to information on

UnitedHealth Group

thousands of health topics and enables them to access services such as requesting ID cards, viewing the status of claims, searching for a physician and, depending on their coverage, renewing prescriptions.

Over the past two years, UnitedHealth Group has invested more than \$400 million in technology research, development and deployment. This ongoing investment in technology, initiated years ago and now accelerating, has provided significant service enhancements to our customers and major productivity gains for our company. Today, we have the most advanced technological tools and the most complete, clinically oriented databases in all of health care services. Our approach is helping physicians focus on care and consumers focus on their health, not on the health care system.

We have an uncompromising belief in safe and fact-based medicine. Indeed, our Ingenix business segment is devoted to gathering and sharing knowledge and information that will advance health care quality and delivery. Across all of our businesses, we strive to advance care appropriateness, best practices and patient safety based on fact and scientific evidence. This principle even carries over to the UnitedHealth Foundation, which distributed more than 1 million copies of the book Clinical Evidence in 2000. Published by the British Medical Journal, this highly regarded reference guide of evidence-based clinical health care generated an overwhelmingly positive response from the more than 400,000 doctors and 80,000 nurses who received it.

Above all, we believe in helping people by facilitating care. Through Care Coordination<sup>an</sup> possibly the most acclaimed change to come to health care services in the past decade, UnitedHealthcare channels resources to people who will benefit most from coordinating fragmented care delivery resources. As part of Care Coordination, we dismantled pre-authorization processes and infrastructure in 1999 and redirected those resources into improving decision-making, facilitating care delivery and advancing health outcomes through physician and patient outreach. As a result, in 2000 we placed more than 250,000 telephone calls to Individuals with serious health care needs, helping them and their families to access, coordinate, manage and efficiently and effectively obtain the care they needed. Patients, families, physicians, employers, regulators, legislators and other Interested parties have responded very positively.

Commitment to improved access, real choice, simplification, information and care facilitation, together with underlying competencies in organizing health assets, clinical information capabilities and applying technology, have propelled our success to date. More important, they will enable UnitedHealth Group to continue to grow, progress and innovate, regardless of how or when the market evolves and changes.

William W. M. Guia

William W. McGuire, M.D.

Chairman and Chief Executive Officer

InitedHealth Group has prospered by recognizing that value is measured not only by price, but also by how well we meet individual customer demands for choice, control, quality and convenience. Through five primary operating businesses—UnitedHealthcare, Ovations, Uniprise, Specialized Care Services and Ingenix—UnitedHealth Group serves the specific needs of unique market segments. And by leveraging the collective expertise and capabilities of the companies within our family, we are advancing optimal health for all Americans and achieving unparalleled growth.

# TECHNOLOGY AND PROCESS LEADERSHIP

- Invested more than \$400 million in technology and database development and deployment in 1999 and 2000
- Introduced applications in Care Coordination<sup>57</sup>, e-Billing and Predictive Modeling, and four Internet portals dedicated to employers, care providers, consumers, and brokers and agents
- In 2001, we will conclude a 30-month process simplification and consolidation effort that produced a 35% productivity advancement in 1999 and 2000

## GROWTH

- Achieved 21% compound annual revenue growth over the past four years
- Added 3 million new individuals served in 2000 to reach nearly 35 million Americans served by UnitedHealth Group companies
- Achieved more than 94% overall customer retention across member-based business segments

# PERFORMANCE 1997-2000

- 24% compound annual growth in earnings from operations, excluding investment income
- · 23% compound annual growth in earnings per share
- 31% compound annual growth in operating cash flows
- · 22% compound annual growth in return on equity

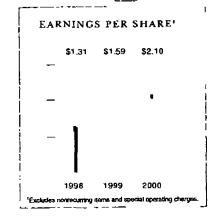
# PERFORMANCE IN 2000

- . Earnings from operations grew 27% to \$1.2 billion
- Operating cash flows grew 28% to more than \$1.5 billion
- Operating margin grew 19% to 5.7%

# DIVERSIFICATION AND INNOVATION

- Throughout 2000, implemented a new approach called Care Coordination, which eliminated authorization processes and channels resources into facilitating access to services
- In 2000, approximately 40% of UnitedHealth Group earnings came from business segments other than Health Care Services
- In total, less than 25% of UnitedHealth Group earnings now come from UnitedHealthcare's commercial insured products







InitedHealthcare works to improve people's health and make the health care experience simpler, more effective and more efficient for consumers, physicians and employers alike. With basic principles such as direct access to specialists and the innovative Care Coordination™ approach, UnitedHealthcare is offering people simple solutions with more control and choice over health decisions. And instead of continually looking over doctors' shoulders, UnitedHealthcare focuses its programs on prevention, education and closing the gaps in care. In the year 2000, the company extended its people-oriented health services to more than 560,000 new individuals.

# REAL CHOICE

Understanding that people want more choices, UnitedHealthcare offers a broad range of products and services that allow customers to select benefits that are right for them.

# DIRECT ACCESS

UnitedHealthcare facilitates access to broad and diverse health care networks, and designs benefit plans that give individuals direct access to specialists without obtaining referrals.

# INFORMED DECISION-MAKING

By providing them with evidence-based clinical data, UnitedHealthcare helps individuals and physicians make more-informed decisions about treatment options.

# SIMPLIFICATION

UnitedHealthcare enhances the health care experience by simplifying processes and using advanced technology to improve access to information and services, while driving down costs and improving operating productivity.

# CARE COORDINATION

Care Coordination creates a better, more positive and effective health care experience, according to 89 percent of people surveyed about the program. In addition, 83 percent said Care Coordination made it easier for them to get the care they needed.

# AFFORDABILITY

Leveraging the purchasing power of more than 16 million people, UnitedHealthcare provides access to services that are more affordable for customers and fair to physicians.

# 



Adults 50 and older represent America's single largest consumer group. They represent half of total consumer demand, 65 percent of total net worth, and hold 70 percent of all personal financial assets in this country. Today, this age group numbers 76 million individuals, and in the year 2010, Americans age 50 and older will represent more than 40 percent of the total population. Ovations is dedicated to serving this rapidly growing and diverse group of consumers by delivering products and services designed to meet their unique health and well-being needs. Currently, Ovations serves more than 3.5 million individuals and is the country's largest business totally dedicated to this population.

## AARP HEALTH CARE OPTIONS

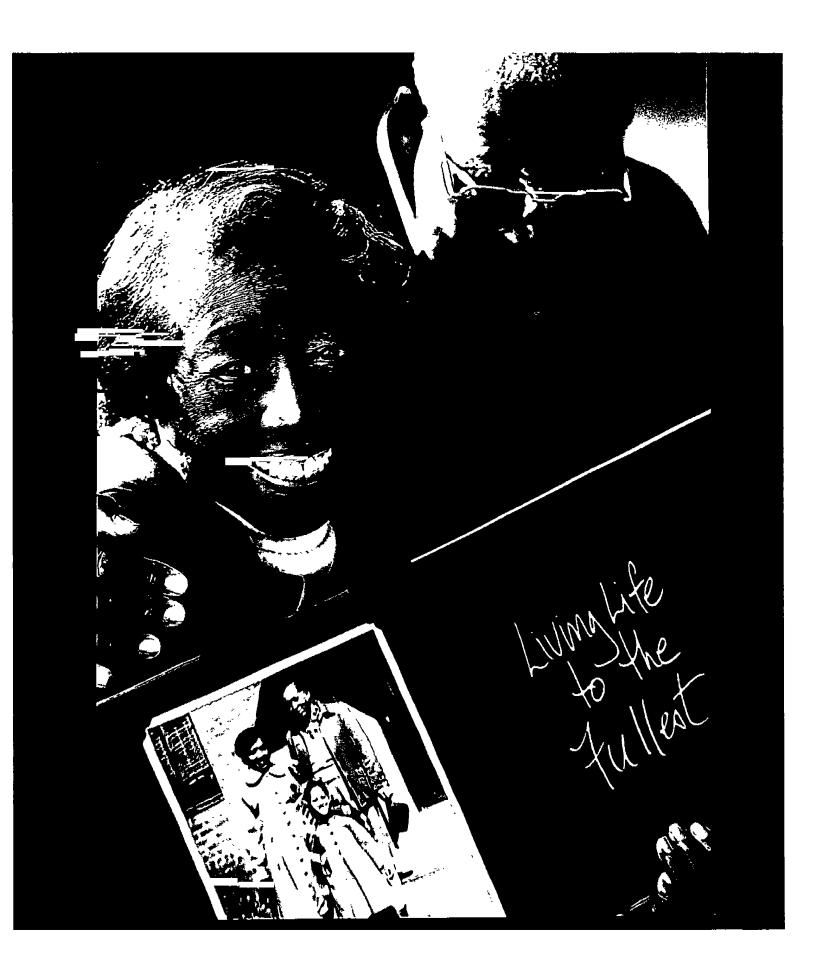
With more than 30 million members, AARP is the nation's leading organization representing Americans age 50 and older. On behalf of AARP, Ovations provides the country's largest single Medicare Supplement and Hospital Indemnity offerings. Management of this program was assumed by Ovations in 1998, following five straight years of declining membership. In 2000, this program achieved year-over-year membership growth and sharply reduced lapse rates for its standardized Medicare Supplement plans. Of the 54 million claims received by the AARP division in the year 2000, more than 99 percent were processed within 10 days, with 99.8 percent financial accuracy. In addition to Medicare Supplement products, Ovations also offers AARP members a Pharmacy Discount Service, hospital supplement products, and an eye health services program.

# EVERCARE

In many ways, EverCare represents Care Coordination\*\* tallored to the unique needs of the frail elderty— delivered through EverCare's unique teams of geriatric nurse practitioners and physicians. Because of this program, EverCare enrollees have avoided serious illness requiring hospitalization, resulting in a 40 percent lower rate in admissions. The EverCare pneumonia Care Coordination program, which was introduced in 1999, has led to a 48 percent drop in mortality from pneumonia among EverCare members.

Effective February 2001, EverCare merged with Lifernark to become, by far, the nation's largest enterprise dedicated exclusively to the health and well-being needs of the frail, vulnerable and chronically ill elderly. In 2001, EverCare revenues are expected to exceed \$500 million.

			_
REVENUES (In b	illions)		INDIVIDUALS SERVED
			(as of Jan. 31, 2001)
\$3.6	\$3.6	\$3.7	
_			AARP Division
_			<ul> <li>Medicare Supplement; 2.2 million</li> </ul>
			<ul> <li>Hospital Indemnity: 1.5 million</li> </ul>
_			EverCare
_			Core Business: 18,600
			<ul> <li>Lifemark (acquired Feb. 2001); 140,000</li> </ul>
1998	1999	2000	



Iniprise develops and executes customized and highly integrated services to address benefit delivery and service needs of large, complex, multi-location employers. Through Uniprise, national employers have access to the full range of UnitedHealth Group networks and services and the ease of integrated administration for all employee services. An intense focus on service excellence, including new Web-enabled service capabilities, has helped Uniprise improve the service experience for clients and consumers alike. Today, Uniprise is the fastest-growing large group service business in America, providing services for more than 25 percent of companies in the Fortune 500.

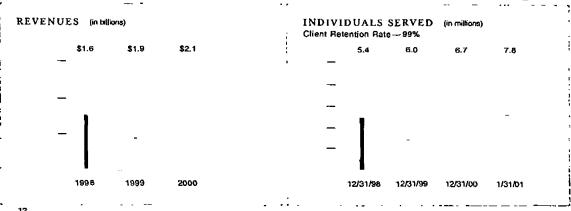
## THE UNIPRISE DIFFERENCE

Uniprise serves approximately 8 million Americans through relationships with more than 260 of America's largest and most demanding companies. Uniprise's 23 percent year-over-year growth through January 2001 was its strongest performance to date. Nearly 1.5 million new individuals were served by Uniprise in the past 12 months. The reasons for this are simple: elite, dedicated service to the large corporate marketplace, anchored in the most advanced technology applications and with access to the broadest and most diversified health care and benefit networks available to the market today.

# SERVICE INNOVATION

Technology-based service is a distinctive element of Uniprise's position in this rapidly growing market. Internet technology has created a new channel for providing health information and services to individuals, physicians, employers and brokers, while also reducing transaction and support expenses,

Through Web-based tools such as EmployerLink Net, employers and consultants have instant, real-time, online access to update information, verify benefits or check the status on a wide range of factors specific to their service needs. Uniprise customers also conduct sophisticated analyses on financial and clinical trends using this Web technology, which links directly to their specific data within our data warehouse.





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Specialized Care Services is an expanding portfolio of health and well-being companies, each dedicated to serving a specific market need by offering a unique blend of benefits, provider networks, services and resources. Through its subsidiary companies, Specialized Care Services provides access to a broad range of specialized services to enhance basic health care. Strong demand for these service offerings drove revenues for this business segment up more than 30 percent in 2000. Going forward, Specialized Care Services will continue to look for and develop additional consumer-oriented services that help support people's total well-being.

# UNITED BEHAVIORAL HEALTH

A leading provider of network-based employee assistance and mental health/substance abuse services, United Behavioral Health's services emphasize early intervention and direct access to the most appropriate care.

## OPTUM\*

Addressing the full spectrum of health and well-being, Optum enables personalized delivery of consumer information and resources using the internet, telephone, print, e-mail, fax, audiotape and personal support.

# UNITED RESOURCE NETWORKS

A provider of network-based transplantation and catastrophic care services, its strength lies in using clinical Information to create, enhance and promote access to specialized networks and provide complex case management services.

# DENTAL BENEFIT PROVIDERS

One of the nation's largest network-based dental services companies, Dental Benefit Providers offers access to affordable care along with innovative product choices.

# COORDINATED VISION CARE

Providing network-based vision benefit management services, Coordinated Vision Care brings value to customers by contracting directly with care providers, frame suppliers and lens laboratories.

# UNIMERICA

By providing life, accident and critical illness benefits that supplement basic health plans, Unimerica enables customers to tailor benefits to their personal circumstances and needs.

# NATIONAL BENEFIT RESOURCES

Offering network-based cost management services and benefit products for self-insured employers, National Benefit Resources leverages UnitedHealth Group's broader capabilities to better serve and penetrate this market segment.

# REVENUES (in millions)

		•	,
	\$618	\$726	\$974
_			
- -		-	
~-		-	
	1998	1999	2000

# INDIVIDUALS SERVED (as of Jan. 31, 2001)

- United Behavioral Health 18.7 million
- Optum
   19.9 million
- Dental Benefit Providers 2.4 million
- Coordinated Vision Care 1.2 million



mproved knowledge and information are key to improving health and well being. Accurate, unbiased research and information help improve the effectiveness of care by supporting fact-based clinical and financial decisions. Which treatment leads to the best outcome? What is the safest, most effective care intervention between newly introduced medical technology and an established practice? Is a potential new prescription drug better than existing drug options? Through its two divisions—Ingenix Health Intelligence and Ingenix Pharmaceutical Services—Ingenix provides answers to these and other important questions for clients around the world.

# INGENIX HEALTH INTELLIGENCE

Ingenix Health Intelligence, a leader in the multi-billion-dollar market for health care information, offers a breadth of informatics products and services, combined with depth of knowledge and experience, and innovative data, analytic and predictive approaches to solving problems.

Data and Software Products

- Cost and utilization reporting and analysis
- Billing and relmbursement editing and coding
- · Fraud and abuse detection
- · Care provider fee schedules
- HEDIS reporting
- Quality profiling
- Workers compensation and disability insurance repricing and support

Print and Electronic Publications

- Coding and reimbursement information
- Information about new regulatory developments
- · Best practices data

Consulting Services

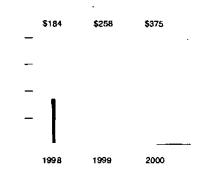
- Actuarial and financial disciplines
- Product development
- Care provider contracting and medical policy
- · Management consulting
- Health services evaluation and delivery

# INGENIX PHARMACEUTICAL SERVICES

Ingentx Pharmaceutical Services speeds the product development process. As part of UnitedHealth Group, the company has access to a comprehensive longitudinal database of more than 15 million patients. Its in-depth knowledge and expertise in working with all key constituents in health care give Ingenix Pharmaceutical Services the unique ability to view drug challenges and opportunities from multiple vantage points. Its services include:

- · Clinical trials services and outcomes
- Pharmacoeconomic and safety research
- Medical education
- Regulatory and strategic marketing services for pharmaceutical, biotechnology and medical device manufacturers

# REVENUES (in millions)





# FINANCIAL REVIEW

"With each of our business segments reporting record results in the year 2000, we continue our progress as one of the most dynamic growth companies in America."

## 2000 FINANCIAL PERFORMANCE HIGHLIGHTS

2000 was the strongest year in the history of UnitedHealth Group, resulting from diversified business growth and continued productivity improvements. Financial performance highlights include:

- Record revenues of \$21.1 billion, a 12% increase in continuing markets over 1999.
- Record operating earnings of \$1.2 billion, up 27% over 1999, with each segment delivering strong year-overyear revenue and operating earnings advances.
- Record net earnings applicable to common shareholders of \$705 million, and diluted net earnings per common share of \$2.10, representing increases over 1999 of 25% and 32%, respectively.
- Record cash flows of more than \$1.5 billion generated from operating activities, an increase of 28% over 1999.
- Return on shareholders' equity of 19.0%, up from 14.1% in 1999.

Following is a five-year summary of selected financial data:

	For the Year Ended December 31,									
(In millions, except per share data)		2000		1999		1998		1997	1998	
Consolidated Operating Results										
Revenues	\$	21,122	\$	19,562	\$	17,355	\$	11,794	\$ 10,074	
Earnings (Loss) From Operations	\$	1,200	\$	943	\$	(42)	\$	742	\$ 581 1	
Net Earnings (Loss)	\$	7361	\$	568²	\$	(166)	٠\$	460	\$ 3564	
Net Earnings (Loss) Applicable										
to Common Shareholders	\$	736	\$	568	\$	(214)3	\$	431	\$ 327	
Basic Net Earnings (Loss)										
per Common Share	\$	2.27	\$	1.63	\$	(0,56)	\$	1.15	\$ 0.90	
Dituted Net Earnings (Loss)										
per Common Share	\$	2.191	\$	1.60°	\$	$(0.56)^3$	\$	1.13	\$ 0.881	
Common Stock Dividends per Share	\$	0.02	\$	0.02	\$	0.02	\$	0.02	\$ 0.02	
Consolidated Cash Flows										
From Operating Activities	\$	1,521	\$	1,189	\$	<u>1,</u> 071	\$	683	\$ 562	
Consolidated Financial Condition (As of December 31)										
Cash and Investments	\$	5,053	\$	4,719	\$	4,424	\$	4,041	\$ 3,453	
Total Assets	\$	11,053	\$	10,273	\$	9,675	\$	7,623	\$ 6,9 <del>9</del> 7	
Debt	\$	1,209	\$	991	\$	708*	\$	-	\$ -	
Convertible Preferred Stock	\$	_	\$	_	\$	_6	\$	500	\$ 500	
Shareholders' Equity	\$	3,688	\$	3,863	\$	4,038	\$	4,534	\$ 3,823	
Return on Shareholders' Equity		19.0%		14.1 %		na ³		10.4 %	9.2%	

Results of Operations should be reed together with the accompanying Consolidated Financial Statements and Notes.

<sup>1</sup> Where applicable, 2000 and 1999 results exclude the effects of asperate dispositions of UnitedHealth Capital Investments.

<sup>1 2000</sup> results include a \$14 million net permanent tax benefit related to the contribution of UnitedHealth Capital investments to the UnitedHealth Capital investments to the UnitedHealth Capital investments. Excluding these issue, not earnings and distort net earnings are distorted net earnings.

<sup>2 1999</sup> results include a net permanent tex benefit primarity related to the contribution of UnitedHealth Capital investments to the UnitedHealth Foundation. Excluding this benefit, net semings and diluted net semings per common share were \$563 million and \$1.59 per share.

Security the operational realignment and other charges of \$725 million, \$175 million of charges related to contract losses essociated with certain Medicars markets and other increases to commercial and Medicars medical costs physible estimates, and the \$20 million convertible preferred stock redemption premium from 1998 results, certaings from operations and net earnings applicable to common shareholders would have been \$258 million and \$509 million, or \$1.31 diluted net samings per common shareholders would have been \$258 million and \$509 million, or \$1.31 diluted net samings per common shareholders would have been \$258 million and \$509 million, or \$1.31 diluted net samings per common shareholders.

<sup>4</sup> Excluding the merger costs associated with the acquisition of HealthWise of America, Inc. of \$15 million (\$9 million after tax) and the provision for future losses on two multi-year contracts of \$45 million (\$27 million star tax). 1996 earnings from operations and not earnings would have been \$541 million and \$392 million, or \$0.98 dijuted net earnings per common share, and return on shareholders, equity would have been \$2.2%.

<sup>5</sup> During 1998, we issued debt totaling \$708 million and redeemed \$500 million of convertible preferred stock.

na -- not applicable

# 2000 RESULTS COMPARED TO 1999 RESULTS

## CONSOLIDATED FINANCIAL RESULTS

#### Revenues

Revenues are comprised of premium revenue associated with insured products, fees associated with management, administrative and consulting services, and investment and other income.

Consolidated revenues increased in 2000 to \$21.1 billion. Strong and balanced growth across all business segments was partially offset by transitions in certain geographic and Medicare markets. Adjusted for the effects of these market transitions, consolidated revenues increased approximately \$2.2 billion, or 12%, over 1999. Following is a discussion of 2000 consolidated revenue trends for each of our three revenue components.

Premium Revenues Consolidated premium revenues in 2000 totaled \$18.9 billion, an increase of \$1.4 billion, or 8%, compared with 1999. This increase was driven by two primary factors: premium yield increases on UnitedHealthcare's commercial Insured business, and growth in individuals served. These increases were partially offset by transitions in certain geographic and Medicare markets. Adjusted for the effect of these market transitions, premium revenues increased 12% over 1999.

Management Services Fee Revenues Fee revenues in 2000 totaled \$2.0 billion, representing an increase of \$171 million, or 10%, over 1999. The overall increase in fee revenues is primarily the result of record growth in Uniprise's multi-site customer base, growth in UnitedHealthcare's fee-based business, modest price increases, and acquisitions and growth from our Specialized Care Services and Ingenix businesses.

Investment and Other Income Investment and other income during the year ended December 31, 2000, totaled \$232 million, representing an increase of \$13 million over 1999. Higher interest yields on investments in 2000 compared with 1999 were largely offset by \$34 million of net realized capital losses in 2000. Net realized capital losses were \$6 million in 1999.

# **Medical Costs**

The combination of pricing and care coordination efforts is reflected in the medical care ratio (medical costs as a percentage of premium revenues).

Our consolidated medical care ratio decreased from 85.7% in 1999 to 85.4% in 2000. Excluding AARP business, on a year-over-year basis, the medical care ratio decreased 30 basis points to 83.9%. Decreases in our year-over-year medical care ratios are attributable to commercial net premium yield increases exceeding the underlying increase in total benefit costs.

On an absolute dollar basis, the increase in medical costs of \$1.1 billion, or 7%, over 1999 was driven by a combination of growth in individuals served with insured products, medical cost inflation, benefit changes and product mix changes.

## **Operating Costs**

Operating costs as a percentage of total revenues (the operating cost ratio) was 16.7% in 2000, compared with 17.1% in 1999. This decrease was primarily driven by productivity increases achieved through process improvement, technology deployment and cost reduction initiatives, and by further leveraging the fixed cost components of our infrastructure.

Changes in revenue mix also affect the operating cost ratio. For our fastest-growing businesses (Uniprise, Specialized Care Services and Ingenix), most direct costs of revenue are included in operating costs, not medical costs. Using a revenue mix comparable to 1999, the 2000 operating cost ratio would have decreased 80 basis points to 16.3%.

On an absolute dollar basis, operating costs increased by \$177 million, or 5%, over 1999. This increase reflects the additional costs to support product and technology development initiatives, and to support the 8% increase in consolidated revenues in 2000, partially offset by the benefit of productivity and technology improvements discussed above.

## Depreciation and Amortization

Depreciation and amortization was \$247 million in 2000 and \$233 million in 1999. This increase resulted primarily from increased levels of capital expenditures to support business growth and technology enhancements, and the amortization of goodwill and other intangible assets related to acquisitions.

## Income Taxes

Our 2000 income tax provision includes nonrecurring tax benefits primarily related to the contribution of UnitedHealth Capital investments to the UnitedHealth Foundation. Excluding nonrecurring tax benefits, our effective income tax rate was 37.5% in 2000 and 37.0% in 1999.

# **BUSINESS SEGMENTS**

The following summarizes the operating results of our business segments for the years ended December 31 (in millions):

Revenues			
		4000	Percent
	2000	1999	Change
Health Care Services	\$ 18,696	\$ 17,581	6%
Uniprise	2,140	1,865	15%
Specialized Care Services	974	726	34%
Ingenix	<b>3</b> 75	258	45%
Corporate and Eliminations	(1,063)	(868)	nm
Consolidated Revenues	\$ 21,122	\$ 19,562	8%
Earnings from Operations			
•			Percent
	2000	1999	Change
Health Care Services	\$ 739	\$ 578	28%
Uniprise	289	222	30%
Specialized Care Services	174	128	36%
Ingenix	32	25	28%
Total Operating Segments	1,234	953	29%
Corporate	(34)	(10)	nm
Consolidated Earnings from Operations	\$ 1,200	\$ 943	27%

#### Health Care Services

The Health Care Services segment consists of the UnitedHealthcare and Ovations businesses. UnitedHealthcare coordinates network-based health and well-being services on behalf of local employers and consumers nationwide. Ovations, which administers Medicare Supplement benefits on behalf of AARP, offers health and well-being services for Americans age 50 and older.

The Health Care Services segment posted record revenues of \$18.7 billion, representing an increase of \$1.1 billion, or 6%, over 1999. This increase is primarily attributable to premium yield increases on UnitedHealthcare's commercial business and growth in Individuals served in continuing markets, partially offset by targeted pullbacks in certain geographic and Medicare markets. Adjusted for the effects of these market transitions, Health Care Services' revenues increased by 10% on a year-over-year basis.

The Health Care Services segment contributed earnings from operations of \$739 million in 2000, an increase of \$161 million, or 28%, over 1999. This Increase is primarily the result of improved margins on UnitedHealthcare's commercial business and reduced operating costs as a percentage of revenues, driven by process improvement, technology deployment and cost reduction initiatives. Health Care Services' operating margin increased to 4.0% in 2000 from 3.3% in 1999.

UnitedHealthcare's commercial medical care ratio improved to 84.1% in 2000 from 84.6% in 1999, driven by net premium yield increases in excess of underlying medical costs. Commercial health plan premium rates are established based on anticipated benefit costs, including the effects of medical cost inflation, benefit changes and product mix.

UnitedHealthcare's year-over-year Medicare enrollment decreased 7% as a result of actions taken to better position this program for long-term success. Effective January 1, 2000 and 2001, UnitedHealthcare withdrew its Medicare+Choice product from targeted counties affecting 40,000 individuals and 56,000 individuals, respectively. These actions reduce Medicare enrollment, but improve profitability in the long term relative to the cost of capital and required resource management.

The following table summarizes individuals served by UnitedHealthcare, by major market segment and funding arrangement, as of December 31 (in thousands):

	2000	1999
Commercial		
Insured	5,495	5,150
Fee-based	1,927	1,745
Total Commercial	7,422	6,895 <sup>1</sup>
Medicare	406	437
Medicaid	549	479
Total UnitedHealthcare	8.377	7 811

<sup>1</sup> Excludes individuals served through UnitedHealthcare platforms sociated in Puerto Rico and Pacific Coest regions. As of December 31, 2000, UnitedHealthcare had aubstantially transitioned from tresse markets, including these markets, including these markets, including these markets.

Commercial
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Insured	5,650
Fee-based	1,887
Total Commercial	7 537

## Uniprise

Uniprise provides network based health and well being services, business to business transactional infrastructure services, consumer connectivity, and technology support for large employers and health plans. Uniprise revenues of \$2.1 billion increased by \$275 million, or 15%, over 1999. This increase was driven primarily by continued growth in Uniprise's large multi-site customer base, which had an 11% increase in individuals served, as well as changes in funding arrangements selected by certain customers and price increases on fee-based business. Uniprise served 6.7 million and 6.0 million individuals as of December 31, 2000 and 1999, respectively. Uniprise's earnings from operations grew by \$67 million, or 30%, over 1999 as a result of the increased revenues, and operating margin improved to 13.5% in 2000 from 11.9% in 1999. As revenues have increased, Uniprise has expanded its operating margin by improving productivity through process improvement initiatives, increased deployment of technology and by further leveraging the fixed cost components of its infrastructure.

# **Specialized Care Services**

Specialized Care Services is an expanding portfolio of health and well-being companies, each serving a specialized market need with a unique blend of benefits, provider networks, services and resources. Specialized Care Services' revenues of \$974 million increased by \$248 million, or 34%, over 1999. This increase was driven primarily by an increase in the number of individuals served by United Behavioral Health, its mental health and substance abuse services business, and the acquisitions of Dental Benefit Providers, Inc. in June 1999 and National Benefit Resources, Inc. in November 1999. Earnings from operations of \$174 million increased by 36% compared with 1999, commensurate with 2000 revenue growth. Specialized Care Services' operating margin improved from 17.6% in 1999 to 17.9% in 2000.

#### Ingenix

Ingenix is a leader in the field of health care data and information, research analysis and application, serving pharmaceutical companies, health insurers and payers, care providers, large employers and governments. Revenues of \$375 million increased by \$117 million, or 45%, over 1999 driven by organic growth of \$54 million and 1999 acquisitions that broadened the business franchise in clinical research and development, clinical marketing and data mining. Earnings from operations of \$32 million increased 28% over 1999. Operating margin decreased to 8.5% in 2000 from 9.7% in 1999, principally as a result of increased goodwill amortization expense associated with acquisitions.

# Corporate

Corporate includes investment income derived from cash and investments not assigned to operating segments and the company-wide costs associated with process improvement initiatives. The decrease of \$24 million in 2000 earnings reflects a decline in the level of unassigned cash and investments and associated investment income, primarily resulting from share repurchases and incremental 2000 process improvement costs.

## 1999 RESULTS COMPARED TO 1998 RESULTS

#### CONSOLIDATED FINANCIAL RESULTS

#### Revenues

Consolidated revenues increased 13% in 1999 to \$19.6 billion, reflecting balanced growth across all business segments. Following is a discussion of 1999 consolidated revenue trends for each of our three revenue components.

Premium Revenues Consolidated premium revenues in 1999 totaled \$17.6 billion, an increase of \$2.0 billion, or 13%, compared to 1998. This increase was primarily driven by premium yield increases on UnitedHealthcare's commercial insured business, growth in the number of individuals served by United Behavioral Health and the acquisitions of HealthPartners of Arizona, Inc. and Dental Benefit Providers, Inc.

Management Services Fee Revenues Management services fee revenues in 1999 totaled \$1.8 billion, representing an increase of \$203 million, or 13%, over 1998. The overall increase in management services fee revenues was primarily the result of strong growth in Uniprise's multi-site customer base, price increases in fee business, and acquisitions and growth from our Ingenix business.

Investment and Other Income Investment and other income during the year ended December 31, 1999, totaled \$219 million, representing a decrease of \$30 million from 1998. This decrease is primarily the result of net realized capital losses from the sale of investments in 1999 in contrast to net realized capital gains in 1998, along with decreases in cash and investments and associated investment income resulting from our stock repurchase activities and business acquisitions. Rising interest rates during 1999 resulted in declines in the fair value of fixed income investments, and we realized net capital losses of \$6 million during 1999. For the year ended December 31, 1998, realized net capital gains were \$26 million.

## **Medical Costs**

The consolidated medical care ratio decreased to 85.7% in 1999 from 87.2% in 1998. Excluding the AARP business and the effects of 1998 special charges, on a year-over-year basis, the medical care ratio decreased 10 basis points to 84.2%.

On an absolute dollar basis, the increase in medical costs of \$1.5 billion, or 11%, over 1998 was driven by a combination of growth in individuals served with insured products, medical cost inflation, benefit changes and product mix changes.

# **Operating Costs**

Operating costs as a percentage of total revenues (the operating cost ratio) was 17.1% in 1999, consistent with 1998. Operating cost reductions in 1999 were partially offset by \$39 million of incremental expenses in 1999 related to process improvement initiatives and platform system conversions. On a comparable revenue mix basis, the operating cost ratio would have decreased 30 basis points to 16.8%.

On an absolute dollar basis, operating costs increased by \$379 million, or 13%, over 1998. This increase reflects the additional costs to support the corresponding 13% increase in consolidated revenues in 1999, and the incremental process improvement expenses described above.

# Depreciation and Amortization

Depreciation and amortization was \$233 million in 1999 and \$185 million in 1998. The increase in 1999 resulted from increased levels of capital expenditures in 1998 and 1999 to support business growth and technology enhancements and amortization of goodwill and other intangible assets.

# **BUSINESS SEGMENTS**

The following summarizes the operating results of our business segments for the years ended December 31 (in millions):

Revenues			Percent
·	1999	1998	Change
Health Care Services	\$ 17,581	\$ 15,612	13%
Uniprise	1,865	1,624	15%
Specialized Care Services	7 <b>2</b> 6	618	17%
Ingenix	258	184	40%
Corporate and Eliminations	(868)	(683)	nm
Consolidated Revenues	\$ 19,562	\$ 17,355	13%
Earnings from Operations		4000	Percent
Health Care Services	1999 \$ 578	1998 ' \$ 503	Change 15%
Uniprise	Ψ 3/6 222	161	38%
Specialized Care Services	· 128	109	17%
Ingenix	<b>25</b>	20	25%
Total Operating Segments	953	<b>793</b>	20%
Corporate	(10)	65	nm
Consolidated Earnings from Operations	\$ 943	\$ 858	10%

<sup>1</sup> Excludes \$725 million of operational realignment and other charges and \$175 million of charges related to contract losses associated with certain Medicare markets and other increases to commercial and Medicare medical costs payable estimates.

nm — not meaningful

# **Health Care Services**

The Health Care Services segment posted revenues of \$17.6 billion, representing an increase of \$2.0 billion, or 13%, over 1998. This increase was primarily attributable to UnitedHealthcare's net premium yield increases on commercial business and the acquisition of HealthPartners of Arizona, Inc.

The Health Care Services segment contributed earnings from operations of \$578 million in 1999, an increase of \$75 million, or 15%, over 1998. This increase is primarily due to growth in the average number of individuals served by UnitedHealthcare during 1999 and reduced operating costs as a percentage of revenues driven by our process improvement initiatives.

UnitedHealthcare's commercial medical care ratio improved to 84.6% in 1999 from 84.9% in 1998 (excluding 1998 special operating charges), driven by net premium yield increases in excess of underlying medical costs.

The following table summarizes individuals served by UnitedHealthcare, by major market segment and funding arrangement, as of December 31 (in thousands)\*:

u	1999	1998
Commercial		
Insured	5,150	5,141
Fee-based	1,745	1,616
Total Commercial	6,895	6,757
Medicare .	437	482
Medicaid	479	430
Total UnitedHealthcare	7.811	7.669

<sup>1</sup> Excludes individuals served through UnitedHealthcare platforms in Puerto Rico and Pacific Coast regions. The company has transitioned these markets.

#### Uniprise

Uniprise's revenues increased by \$241 million, or 15%, over 1998 driven primarily by continued growth in its large multi-site customer base, which had an 11% increase in individuals served, and price increases on fee-based business. Uniprise served 6.0 million individuals as of December 31, 1999, and 5.4 million individuals as of December 31, 1998. Uniprise's earnings from operations grew by \$61 million, or 38%, over 1998 as a result of the increased revenues, ongoing process improvement initiatives and improved operating margins on insured business.

# **Specialized Care Services**

Specialized Care Services' revenues increased by \$108 million, or 17%, over 1998. This increase was driven primarily by an increase in the number of individuals served by United Behavioral Health, and the acquisition of Dental Benefit Providers, Inc. in June 1999. Earnings from operations of \$128 million increased by 17% compared with 1998, commensurate with 1999 revenue growth.

# Ingenix

Revenues increased by \$74 million, or 40%, over 1998 primarily as a result of acquisitions during the last half of 1998 and during 1999. Earnings from operations of \$25 million represented an increase of 25% over 1998.

# Corporate

The decrease of \$75 million in 1999 Corporate earnings was attributable to \$39 million of incremental process improvement costs over 1998 levels, and a decline in the level of unassigned cash and investments and associated investment income, which resulted primarily from share repurchases and business acquisitions.

# OPERATIONAL REALIGNMENT AND OTHER CHARGES

In conjunction with our operational realignment initiatives, we developed and, in the second quarter of 1998, approved a comprehensive plan (the Plan) to implement our operational realignment. We recognized corresponding charges to operations of \$725 million in the second quarter of 1998, which reflected the estimated costs to be incurred under the Plan. The charges included costs associated with asset impairments; employee terminations; disposing of or discontinuing business units, product lines and contracts; and consolidating and eliminating certain claim processing operations and associated real estate obligations.

Our accompanying financial statements include the operating results of businesses and markets disposed of or discontinued, and markets we have exited in connection with the operational realignment. The accompanying Consolidated Statements of Operations include revenues and operating earnings (losses) from businesses disposed of and markets exited for the years ended December 31, as follows (in millions):

	2000	1999	1998	
Revenues	\$ 312	\$ 689	\$ 964	
Earnings (Loss) From Operations	\$ 9	\$ (41)	\$ (52)	)

The table above does not include operating results from the counties where UnitedHealthcare withdrew its Medicare product offerings effective January 1, 2000, and January 1, 2001. Annual revenues for 1999 from the counties exited effective January 1, 2000, were approximately \$230 million. Annual revenues for 2000 from the counties exited effective January 1, 2001, were approximately \$320 million.

During 2000, we finalized our agreement with Blue Shield of California to transition approximately 210,000 individuals served by our California health plan. Additionally, we transitioned approximately 75,000 individuals served by our Oregon and Washington health plans to Premera BlueCross and LifeWise. These actions conclude our planned transition to concentrate resources in the Pacific Coast region on Uniprise national, multi-site customers and Specialized Care Services customers. We have also transitioned out of the market in Puerto Rico. The balances accrued in our operational realignment and other charges were sufficient to cover expenses incurred in the sale and exit of our operations in these markets.

The operational realignment and other charges do not cover certain aspects of the Plan, including new information systems, data conversions, process re-engineering, temporary duplicate staffing costs as we consolidate processing centers, and employee relocation and training. These costs are expensed as incurred or capitalized, as appropriate. During 2000, 1999 and 1998, we incurred expenses of approximately \$57 million, \$52 million and \$13 million, respectively, related to these activities.

We expect to complete our realignment initiatives during 2001. Based on current facts and circumstances, we believe our remaining accrued liability for realignment initiatives of \$65 million will be adequate to cover the costs to be incurred in executing the remainder of the Plan.

# FINANCIAL CONDITION AND LIQUIDITY AT DECEMBER 31, 2000

During 2000, we generated cash from operations of more than \$1.5 billion, an increase of \$332 million, or 28%, over 1999. The increase in operating cash flows resulted from an increase of \$182 million in net income excluding depreciation and amortization expense, working capital improvements of approximately \$57 million, and \$93 million related to income tax benefits resulting from employee stock option exercises.

We maintained a strong financial condition and liquidity position, with cash and investments of \$5.1 billion at December 31, 2000. Total cash and investments increased by \$334 million since December 31, 1999, primarily resulting from strong cash flows from operations partially offset by common stock repurchases.

As further described under "Regulatory Capital and Dividend Restrictions," many of our subsidiaries are subject to various government regulations. At December 31, 2000, approximately \$327 million of our \$5.1 billion of cash and investments was held by non-regulated subsidiaries. Of this amount, approximately \$65 million was available for general corporate use, including acquisitions and share repurchases. The remaining \$262 million consists of public and non-public equity securities primarily held by UnitedHealth Capital, our venture and development capital business. Our operating cash flows and financing capability also provide us with funds, as needed, for general corporate use.

As of December 31, 2000, we had \$409 million of commercial paper outstanding, with interest rates ranging from 6.6% to 6.9%. In July 2000, we executed new credit arrangements supporting our commercial paper program for an aggregate of \$900 million. These credit arrangements are composed of a \$450 million revolving facility expiring in July 2005, and a \$450 million, 364-day facility expiring in July 2001. We also have the capacity to issue approximately \$200 million of extendible commercial notes (ECNs). During 2000, we had no amounts outstanding under our credit facilities or ECNs. During 2000, we also issued \$400 million of five-year 7.5% senior unsecured notes.

Our debt arrangements and credit facilities contain various covenants, the most restrictive of which place limitations on secured and unsecured borrowings and require us to exceed minimum interest coverage levels. We are in compliance with the requirements of all debt covenants. Our senior debt is rated "A" by Standard & Poor's and Fitch (formerly known as Duff & Phelps), and "A3" by Moody's. Our commercial paper and ECN programs are rated "A-1" by Standard & Poor's, "F-1" by Fitch, and "P-2" by Moody's.

The remaining aggregate issuing capacity of all securities covered by shelf registration statements for common stock, preferred stock, debt securities and other securities is \$850 million. We may publicly offer such securities from time to time at prices and terms to be determined at the time of offering.

Under the board of directors' authorization, we are operating a common stock repurchase program. Repurchases may be made from time to time at prevailing prices, subject to certain restrictions on volume, pricing and timing. During the 12 months ended December 31, 2000, we repurchased 31.0 million shares at an aggregate cost of \$1.2 billion. Through December 31, 2000, we had repurchased approximately 92.9 million shares for an aggregate cost of \$2.6 billion since the inception of the program in November of 1997. In December of 1998, we also repurchased \$500 million of preferred stock that was convertible into 20.2 million shares of common stock. As of December 31, 2000, we have board of directors' authorization to purchase up to an additional 28.4 million shares of our common stock.

In October 2000, the board of directors declared a two-for-one split of the company's common stock in the form of a 100 percent common stock dividend. This dividend was issued on December 22, 2000, to shareholders of record as of December 1, 2000. The accompanying consolidated financial statements have been restated to reflect the share and per share effects of the common stock split.

We expect our available cash and Investment resources, operating cash flows and financing capability will be sufficient to meet our current operating requirements and other corporate development initiatives. A substantial portion of our long-term investments (approximately \$3.3 billion as of December 31, 2000) is classified as available for sale. Subject to the previously described regulations, these investments may be used to fund working capital or for other purposes.

Currently, we do not have any other material definitive commitments that require cash resources; however, we continually evaluate opportunities to expand our operations. This includes internal development of new products and programs and may include acquisitions.

During 1999, we formed and initiated funding of the UnitedHealth Foundation. Through December 31, 2000, we made contributions to the UnitedHealth Foundation using a portion of our UnitedHealth Capital investments valued at approximately \$100 million on the dates contributed. The UnitedHealth Foundation is dedicated to improving Americans' health and well-being by supporting consumer and physician education and awareness programs, generating objective information that will contribute to improving health care delivery, and sponsoring community-based health and well-being activities.

# REGULATORY CAPITAL AND DIVIDEND RESTRICTIONS

Our operations are conducted through our wholly-owned subsidiaries, which include health maintenance organizations and insurance companies. These companies are subject to state regulations that, among other things, may require the maintenance of minimum levels of statutory capital, as defined by each state, and restrict the timing and amount of dividends and other distributions that may be paid to their respective parent companies. Generally, the amount of dividend distributions that may be paid by our regulated subsidiaries, without prior approval by state regulatory authorities, is limited based on the entity's level of statutory net income and statutory capital and surplus.

The National Association of Insurance Commissioners has developed minimum capitalization guidelines for health maintenance organizations, subject to state-by-state adoption. Many states have adopted and other states will likely adopt some form of these rules. We do not expect that further state adoptions or implementations will require us to make significant incremental investments of general corporate resources into regulated subsidiaries.

# QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of changes in value of a financial instrument caused by fluctuations in interest rates and equity prices.

Approximately \$4.8 billion of our cash and investments at December 31, 2000, was invested in fixed income securities. We manage our investment portfolio within risk parameters approved by our board of directors; however, our fixed income securities are subject to the effects of market fluctuations in interest rates. Assuming a hypothetical and immediate 1% increase or decrease in interest rates applicable to our fixed income portfolio at December 31, 2000, the fair value of our fixed income investments would decrease or increase by approximately \$140 million.

# INFLATION

The national health care cost inflation rate exceeds the general inflation rate. We use various strategles to mitigate the negative effects of health care cost inflation, including setting commercial premiums based on anticipated health care costs, coordinating care with various health care providers, and using various health care cost containment measures. Specifically, health plans try to control medical and hospital costs through contracts with independent providers of health care services. Through these contracted care providers, our health plans emphasize preventive health care, appropriate use of specialty and hospital services, education and closing gaps in care.

We believe our strategies to mitigate the impact of health care cost inflation will be successful. However, other factors such as competitive pressures, new health care and pharmaceutical product introductions, demands from health care providers and consumers, applicable regulations or other factors may affect our ability to control the impact of health care cost increases.

## LEGAL MATTERS

Because of the nature of our business, we are routinely subject to suits alleging various causes of action. Some of these suits may include claims for substantial non-economic or punitive damages. We do not believe that any such actions, or any other types of actions, currently threatened or pending will, individually or in the aggregate, have a material adverse effect on our financial position or results of operations.

# CAUTIONARY STATEMENT REGARDING "FORWARD-LOOKING" STATEMENTS

The statements contained in Results of Operations, and other sections of this annual report to shareholders, include forward-looking statements within the meaning of the Private Securitles Litigation Reform Act of 1995 (the PSLRA). When used herein, the words or phrases "believes," "expects," "anticipates," "intends," "will likely result," "estimates," "projects" or similar expressions are intended to identify such forward-looking statements. Any of these forward-looking statements involve risks and uncertainties that may cause the company's actual results to differ materially from the results discussed in the forward-looking statements. Statements that are not strictly historical are "forward-looking" statements under the safe harbor provisions of the PSLRA. Forward-looking statements involve known and unknown risks, which may cause actual results and corporate developments to differ materially from those expected. Factors that could cause results and developments to differ materially from expectations include, without limitation: the effects of state and federal regulations, the effects of acquisitions and divestitures, and other risks described from time to time in each of UnitedHealth Group's SEC reports, including quarterly reports on Form 10-Q, annual reports on Form 10-K and reports on Form 8-K.

# CONSOLIDATED STATEMENTS OF OPERATIONS UnitedHealth Group

		2000	For the Ye	ar Ended Decem	ber 31,	t998
(in millions, except per share data)		2000		1939		1990
Revenues						
Premiums	\$	18,926	\$	17,550	\$	15,516
Management Services Fees		1,964		1,793		1,590
Investment and Other Income		232		219		249
Total Revenues		21,122		19,562		17,355
Medical and Operating Costs						
Medical Costs		16,155		15,043		13,523
Operating Costs		3,520		3,343		2,964
Depreciation and Amortization		247		233		185
Operational Realignment and Other Charges		-		-		725
Total Medical and Operating Costs		19,922		18,619		17,397
Earnings (Loss) From Operations		1,200		943		(42)
Gain on Disposition of UnitedHealth Capital Investments		<b>2</b> 7		-		-
Interest Expense		(72)		(49)		(4)
Earnings (Loss) Before Taxes		1,155		894		(46)
Provision for Income Taxes		(419)		(326)		(120)_
Net Earnings (Loss)		736		568		(166)
Convertible Preferred Stock Dividends						
and Redemption Premium		-				(48)
Net Earnings (Loss) Applicable to Common Shareholders	\$	736	\$	568	\$	(214)
Basic Net Earnings (Loss) per Common Share	\$	2.27	\$	1.63	\$	(0.56)
Diluted Net Earnings (Loss) per Common Share	\$	2.19	\$	1.60	\$	(0.56)
Basic Weighted-Average Number of Common Shares						
Outstanding		324.2		348.2		381.2
Dilutive Effect of Outstanding Stock Options		12.3		6.8		-
Weighted-Average Number of Common Shares Outstanding						
Assuming Dilution		336.5		355.0		381 <i>.</i> 2

See notes to consolidated financial statements.

·			As of December 31,		
(in millions, except share and per share data)		2000		1999	
Assets					
Current Assets		4 440	*	1 605	
Cash and Cash Equivalents	\$	1,419	\$	1,605	
Short-Term Investments		200		546 912	
Accounts Receivable, net of allowances of \$118 and \$117		867			
Assets Under Management		1,646		1,328	
Other Current Assets		273		177	
Total Current Assets		4,405		4,568	
Long-Term Investments	-	3,434		2,568	
Property and Equipment, net of accumulated					
depreciation of \$513 and \$482		303		278	
Goodwill and Other Intangible Assets, net of accumulated					
amortization of \$501 and \$376		2,911		2,859	
Total Assets	\$	11,053	\$	10,273	
Liabilities and Shareholders' Equity	•				
Current Liabilities			_		
Medical Costs Payable	\$	3,266	\$	2,915	
Accounts Payable and Accrued Liabilities		1,050		1,003	
Other Policy Liabilities		1,216		910	
Commercial Paper and Current Maturities of Long-Term Debt		559		591	
Unearned Premiums		479		473	
Total Current Liabilities		6,570		5, <b>8</b> 92	
Long-Term Debt		650		400	
Deferred Income Taxes and Other Liabilities		145		118	
Commitments and Contingencies (Note 11)					
Shareholders' Equity					
Common Stock, \$0.01 par value - 500,000,000 shares authorized;					
317,235,000 and 334,941,000 shares outstanding		3		3	
Additional Paid-In Capital		**		250	
Retained Earnings		3,595		3,445	
Accumulated Other Comprehensive Income:					
Net Unrealized Holding Gains on Investments Available for Sale,					
net of Income tax effects		90		165	
Total Shareholders' Equity		3,688		3,863	
Total Liabilities and Shareholders' Equity	\$	11,053	\$	10,273	

(in millions)	Common Stock Shares Amount		Additional Paud-in Capital		Retained Earnings	Ner Unrealized Holding Gains on Investments Available for Sale		Total Shareholders' Equity	Comprehensive Income (Loss)	
Balance at December 31, 1997	382	\$	4	\$	1.398	\$3,103	s	29	\$4,534	
Issuances of Common Stock	8	•	_	•	145	ΨΟ,100	40	4.5	145	
Common Stock Repurchases	(22)		_		(436)	_		_	(436)	
Comprehensive Income (Loss)	<b>(</b> )				(100)	_		_	(430)	
Net Loss	_		_		_	(166)			400	£ (100)
Other Comprehensive Income Adjustments	:					(100)		_	(166)	\$ (166)
Change in Net Unrealized Holding Gain:	•									
on Investments Available for Sale.	•									
net of income tax effects	_		_		_			45	4-	
Comprehensive Loss	_		_		_	_		15	15	15
Cash Dividends			_		-	-		_	_	<b>\$</b> (151)
Common Stock	_		_			<i>(c</i> )				
Convertible Preferred Stock	_		_		_	(6)		-	(6)	
Convertible Preferred Stock Redemption Premi	ium		_		_	(28) (20)		-	(28)	
						(20)		_	(20)	
Balance at December 31, 1998	368		4		1.107	2.883		44	4.020	
Issuances of Common Stock	6				125	2,000		44	4,038 125	
Common Stock Repurchases	(39)		(1)		(982)	_		-		
Comprehensive Income Net Earnings	(00)		ניו		(302)	_		-	(983)	
Other Comprehensive Income Adjustments Change in Net Unrealized Holding Gains on Investments Available for Sale,	- :		_		-	568		-	568	\$ 568
net of income tax effects	-		-		_	_		121	121	121
Comprehensive Income	-		_		-	_		_	-	\$ 689
Common Stock Dividend	-		-		-	(6)_		-	(6)	<u> </u>
Balance at December 31, 1999	335		3		250	3.445		165	3,863	
Issuances of Common Stock	13		_		349	0,440		-	349	
Common Stock Repurchases	(31)		_		(599)	(581)		-		
Comprehensive Income	(5.7				(000)	(301)		_	(1,180)	
Net Earnings	_		_			736			700	
Other Comprehensive Income Adjustments					_	730		-	736	\$ 736
Change in Net Unrealized Holding Gains	:									
on Investments Available for Sale,										
net of income tax effects	_		_		_			(7E)	(7E)	
Comprehensive Income	_		_		_	_		(75)	(75)	(75)
Common Stock Dividend	_		_		_			-	_	\$ 661
-· · <del>-</del>	_		_		-	(5)		-	(5)	
Balance at December 31, 2000 See notes to consolidated financial statements.	317	\$	3	\$	~	\$3,595	\$	90	\$ 3,688	

(in millions)		2000	For the Y	1998		
Operating Activities						
Net Earnings (Loss)	\$	736	\$	568	;	\$ (166)
Noncash Items						•
Depreciation and Amortization		247		233		185
Deferred Income Taxes and Other		73		35		(184)
Asset Impairments		_		_		451
Net Change in Other Operating Items, net of effects						
from acquisitions, sales of subsidiaries and changes in AARP balances						
Accounts Receivable and Other Current Assets		26		84		67
Medical Costs Payable		288		165		269
Accounts Payable and Other Current Liabilities		162		60		347
Unearned Premiums		(11)		44		102
Cash Flows From Operating Activities		1,521		1,189		1,071
Investing Activities		-				
Cash Paid for Acquisitions, net of cash assumed and other effects		(76)		(334)		(464)
Purchases of Property and Equipment and Capitalized Software		(245)		(196)		(210)
Proceeds from Sales of Property and Equipment and						
Disposition of Businesses		12		51		59
Purchases of Investments		(3,022)		(2,208)		(2,799)
Maturities and Sales of Investments		2,363		2,064		3,435
Cash Flows (Used For) From Investing Activities		(968)		(623)		21
Financing Activities						
Proceeds from Common Stock Issuances		228		102		84
(Payments of) Proceeds from Commercial Paper, net		(182)		132		459
Proceeds from Issuance of Long-Term Debt		400		150		249
Common Stock Repurchases		(1,180)		(983)		(436)
Redemption of Convertible Preferred Stock		-		-		(520)
Dividends Paid		(5)	•	(6)		(34)
Cash Flows Used For Financing Activities		(739)		( <b>60</b> 5)		(198)
Increase (Decrease) in Cash and Cash Equivalents		(186)		(39)		894
Cash and Cash Equivalents, Beginning of Period		1,605		1,644		750
Cash and Cash Equivalents, End of Period	\$	1,419	\$	1,605	\$	1,644

#### (1) DESCRIPTION OF BUSINESS

UnitedHealth Group Incorporated (also referred to as "UnitedHealth Group," "the company," "we," "us," "our") is a national leader in forming and operating orderly, efficient markets for the exchange of high quality health and well-being services. Through independent but strategically aligned, market-defined businesses, we offer health care coverage and related services designed to enable, facilitate and advance optimal health.

#### (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### BASIS OF PRESENTATION

We have prepared the consolidated financial statements in accordance with generally accepted accounting principles and have included the accounts of UnitedHealth Group and its subsidiaries. We have eliminated all significant intercompany balances and transactions.

#### USE OF ESTIMATES

These financial statements include some amounts that are based on our best estimates and judgments. The most significant estimates relate to medical costs, medical costs payable, other policy liabilities and intangible asset valuations relating to acquisitions. These estimates may be adjusted as more current information becomes available, and any adjustment could be significant. The impact of any changes in estimates is included in the determination of earnings in the period of change.

#### REVENUE RECOGNITION

Premium revenues are recognized in the period enrolled members are entitled to receive health care services. Premium payments received from our customers prior to such period are recorded as unearned premiums. Management services fee revenues are recognized in the period the related services are performed. Premium revenues related to Medicare and Medicaid programs as a percentage of total premium revenues were 17% in 2000, 21% in 1999 and 20% in 1998.

#### MEDICAL COSTS AND MEDICAL COSTS PAYABLE

Medical costs include claims paid, claims adjudicated but not yet paid, estimates for claims received but not yet adjudicated, and estimates for claims incurred but not yet received.

The estimates of medical costs and medical costs payable are developed using actuarial methods based upon historical data for payment patterns, cost trends, product mix, seasonality, utilization of health care services and other relevant factors including product changes. The estimates are subject to change as actuarial methods change or as underlying facts upon which estimates are based change. We did not change our actuarial methods during 2000, 1999 and 1998. Management believes that the amount of medical costs payable is adequate to cover the company's liability for unpaid claims as of December 31, 2000.

### CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents are highly liquid investments with an original maturity of three months or less. The fair value of cash and cash equivalents approximates their carrying value because of the short maturity of the instruments. Investments with a maturity of less than one year are classified as short-term.

Investments held by trustees or agencies according to state regulatory requirements are classified as held-to-maturity based on our ability and intent to hold these investments to maturity. Such investments are reported at amortized cost and, because of regulatory restrictions, are included in long-term investments regardless of their maturity date. All other investments are classified as available for sale and reported at fair value based on quoted market prices. Investments are classified as short-term or long-term depending on their maturity term. Periodically, we sell investments classified as long-term prior to their maturity to fund working capital or for other purposes.

Unrealized gains and losses on investments available for sale are excluded from earnings and reported as a separate component of shareholders' equity, net of income tax effects. To calculate realized gains and losses on the sale of investments, we use the specific cost of each investment sold. We have no investments classified as trading securities.

#### ASSETS UNDER MANAGEMENT

Under our 10-year agreement with AARP, we are administering certain aspects of AARP's insurance program that were transferred from the program's previous carrier (see Note 5). Pursuant to our agreement with AARP, the associated assets are managed separately from our general investment portfolio and are used to fund expenditures associated with the AARP program. These assets are invested at our discretion, within certain investment guidelines approved by AARP. At December 31, 2000, the assets were invested in marketable debt securities. Interest earnings and realized investment gains and losses on these assets accrue to AARP policyholders and, as such, are not included in our determination of earnings. Assets under management are reported at their fair value. Unrealized gains and losses are included in the rate stabilization fund associated with the AARP program. As of December 31, 2000, the AARP investment portfolio included net unrealized gains of \$19 million compared with net unrealized losses of \$34 million as of December 31, 1999.

#### OTHER POLICY LIABILITIES

Other policy liabilities include the rate stabilization fund associated with the AARP program (see Note 5) and retrospective rate credit liabilities and customer balances related to experience-rated indemnity products.

Retrospective rate credit liabilities represent premiums we received in excess of amounts contractually owed by customers based on actual claim experience. Liabilities established for closed policy years are based on actual experience, while liabilities for open years are based on estimates of premiums, claims and expenses incurred.

Customer balances consist principally of deposit accounts and reserves that have accumulated under certain experience-rated contracts. At the customer's option, these balances may be returned to the customer or used to pay future premiums or claims under eligible contracts.

#### PROPERTY AND EQUIPMENT

Property and equipment is stated at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful life of the respective assets, ranging from three years to 30 years. The weighted-average useful life of property and equipment at December 31, 2000, was approximately four years.

#### GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the purchase price and transaction costs associated with businesses we have acquired in excess of the estimated fair value of the net assets of these businesses. To the extent possible, a portion of the excess purchase price and transaction costs is assigned to identifiable intangible assets. Goodwill and other intangible assets are being amortized on a straight-line basis over useful lives ranging from three years to 40 years, with a weighted-average useful life of 32 years at December 31, 2000.

The most significant components of goodwill and other intangible assets are composed of goodwill of \$2.1 billion at December 31, 2000 and 1999, and employer group contracts, supporting infrastructure, distribution networks and institutional knowledge of \$530 million at December 31, 2000, and \$550 million at December 31, 1999, net of accumulated amortization.

## LONG-LIVED ASSETS

We review long-lived assets, including goodwill and other Intangible assets, for events or changes in circumstances that would indicate we might not recover their carrying value. We consider a number of factors, including estimated future undiscounted cash flows associated with the long-lived asset, to make this decision. We record assets held for sale at the lower of their carrying amount or fair value, less any costs associated with the final settlement.

#### INCOME TAXES

Deferred income tax assets and liabilities are recognized for the differences between the financial and income tax reporting bases of assets and liabilities based on enacted tax rates and laws. The deferred income tax provision or benefit generally reflects the net change in deferred income tax assets and liabilities during the year. The current income tax provision reflects the tax consequences of revenues and expenses currently taxable or deductible on various income tax returns for the year reported.

#### STOCK-BASED COMPENSATION

We use the intrinsic value method for determining stock-based compensation expenses. Under the intrinsic value method, we do not recognize compensation expense when the exercise price of an employee stock option equals or exceeds the fair market value of the stock on the date the option is granted. Information on what our stock-based compensation expenses would have been had we calculated those expenses using the fair market values of outstanding stock options is included in Note 9.

#### NET EARNINGS (LOSS) PER COMMON SHARE

Basic net earnings (loss) per common share is computed by dividing net earnings (loss) applicable to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted net earnings (loss) per common share is determined using the weighted-average number of common shares outstanding during the period, adjusted for the dilutive effect of common stock equivalents, consisting of shares that might be issued upon exercise of common stock options. In periods where losses are reported, the weighted-average number of common shares outstanding excludes common stock equivalents, since their inclusion would be anti-dilutive.

#### RECENTLY ISSUED ACCOUNTING STANDARDS

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133 regarding accounting for derivative instruments and hedging activities. SFAS No. 133, as amended by SFAS No. 137 and No. 138, establishes accounting and reporting standards requiring that derivative instruments (including certain derivative instruments embedded in other contracts) and hedging activity be recorded in the balance sheet either as an asset or liability measured at its fair value. The statement requires changes in the derivative's fair value to be recognized in earnings or, for derivatives that hedge market risk related to future cash flows, in accumulated other comprehensive income, unless specific hedge accounting criteria are met. The company adopted SFAS No. 133 within its financial statements effective January 1, 2001, which did not result in a material effect on its financial position, results of operations or cash flows.

#### (3) ACQUISITIONS

In September 1999, our Ingenix business segment acquired Worldwide Clinical Trials, Inc. (WCT), a leading contract research organization. We paid \$214 million In cash in exchange for all outstanding shares of WCT. We accounted for the purchase using the purchase method of accounting, which means the purchase price was allocated to assets and liabilities acquired based on their estimated fair values at the date of acquisition. Only the post-acquisition results of WCT are included in our consolidated financial statements. The purchase price and costs associated with the acquisition exceeded the preliminary estimated fair value of net assets acquired by \$214 million, which has been assigned to goodwill and is being amortized over its estimated useful life of 30 years. The proforma effects of the WCT acquisition on our consolidated financial statements were not material.

In June 1999, our Specialized Care Services business segment acquired Dental Benefit Providers, Inc. (DBP), one of the largest dental benefit management companies in the United States. We paid \$105 million in cash, and we accounted for the acquisition using the purchase method of accounting. The purchase price and costs associated with the acquisition exceeded the preliminary estimated fair value of net assets acquired by

\$105 million, which has been assigned to goodwill and is being amortized over its estimated useful life of 40 years. The pro-forma effects of the DBP acquisition on our consolidated financial statements were not material.

In October 1998, our Health Care Services segment acquired HealthPartners of Arizona, Inc. (HPA), with 509,000 members as of the acquisition date. We paid \$235 million in cash in exchange for all outstanding shares of HPA. We accounted for the acquisition using the purchase method of accounting. The purchase price and costs associated with the acquisition exceeded the estimated fair value of net assets acquired by \$223 million, which has been assigned to goodwill and is being amortized over its estimated useful life of 40 years. The pro forma effects of the HPA acquisition on our consolidated financial statements were not material.

During 1998, our Ingenix segment acquired Kern McNeill International, Inc. (KMI), a leading contract research organization, and St. Anthony Publishing, Inc. (St. Anthony), a leader in the health care coding and reimbursement publications market. In the aggregate, we paid \$188 million In cash and assumed liabilities of \$17 million in exchange for all of the common stock of KMI and St. Anthony. We accounted for these acquisitions using the purchase method of accounting. The purchase price and costs associated with these acquisitions exceeded the preliminary fair value of net assets acquired by \$205 million, which has been assigned to trade names and goodwill and is being amortized over their estimated useful lives ranging from 15 to 40 years. The proforma effects of these acquisitions on our consolidated financial statements were not material.

#### (4) SPECIAL OPERATING CHARGES

#### OPERATIONAL REALIGNMENT AND OTHER CHARGES

In conjunction with our operational realignment initiatives, we developed and, in the second quarter of 1998, approved a comprehensive plan (the Plan) to Implement our operational realignment. We recognized corresponding charges to operations of \$725 million in the second quarter of 1998, which reflected the estimated costs to be incurred under the Plan. The charges included costs associated with asset impairments; employee terminations; disposing of or discontinuing business units, product lines and contracts; and consolidating and eliminating certain claim processing operations and associated real estate obligations. Activities associated with the Plan will result in the reduction of approximately 5,200 positions, affecting approximately 6,400 people in various locations. Through December 31, 2000, we have eliminated approximately 4,900 positions, affecting approximately 5,000 people, pursuant to the Plan. The remaining positions are expected to be eliminated during 2001.

Our accompanying financial statements include the operating results of businesses and markets disposed of or discontinued, and markets we have exited in connection with the operational realignment. The accompanying Consolidated Statements of Operations include revenues and operating earnings (losses) from businesses disposed of and markets we exited for the years ended December 31, as follows (in millions):

	2000		1999	1990
Revenues	\$ 312	. \$	689	\$ 964
Earnings (Loss) From Operations	\$ 9	\$	(41)	\$ (52)

The table above does not include operating results from the counties where UnitedHealthcare withdrew its Medicare product offerings effective January 1, 2000, and January 1, 2001. Annual revenues for 1999 from the counties exited effective January 1, 2000, were approximately \$230 million. Annual revenues for 2000 from the counties exited effective January 1, 2001, were approximately \$320 million.

During 2000, we finalized our agreement with Blue Shleid of California to transition approximately 210,000 individuals served by our California health plan. Additionally, we transitioned approximately 75,000 individuals served by our Oregon and Washington health plans to Premera BlueCross and LifeWise. These actions conclude our planned transition to concentrate resources in the Pacific Coast region on Uniprise national, multi-site customers and Specialized Care Services customers. We have also transitioned out of the market in Puerto Rico.

The balances accrued in our operational realignment and other charges were sufficient to cover expenses incurred in the sale and exit of our operations in these markets.

The operational realignment and other charges do not cover certain aspects of the Plan, including new Information systems, data conversions, process re-engineering, temporary duplicate staffing costs as we consolidate processing centers, and employee relocation and training. These costs are expensed as incurred or capitalized, as appropriate. During 2000, 1999 and 1998, we incurred expenses of approximately \$57 million, \$52 million, and \$13 million, respectively, related to these activities.

The Plan anticipated substantial completion in 1999. However, some initiatives, including the consolidation of certain claim and administrative processing functions and certain divestitures and market realignment activities are requiring additional time to complete in the most effective manner. These activities will extend through the middle of 2001. Based on current facts and circumstances, we believe the remaining realignment reserve is adequate to cover the costs to be incurred in executing the remainder of the Plan. However, as we proceed with the execution of the Plan and more current information becomes available, it may be necessary to adjust our estimates for severance and lease obligations on exited facilities.

The table below is a roll-forward of accrued operational realignment and other charges, which are included in Accounts Payable and Accrued Liabilities in the accompanying Consolidated Balance Sheets, through December 31, 2000 (in millions):

·		lsaet alrments	Out	erance and placement Costs	 cancelable Lease digations	Busin	osition of esses and er Costs		Total
Balance at December 31, 1997	\$		\$	-	\$ ~	\$		\$	_
Provision for Operational Realignment									
and Other Charges		430		142	82		71		725
Additional Charges (Credits)		21		(20)	(9)		8		-
Cash Payments		-		(19)	(6)		(13)		(38)
Noncash Charges	(	451)		-	_		_	4	(451)
Balance at December 31, 1998				103	67		66		236
Additional Charges (Credits)				(22)	13		9		-
Cash Payments		_		(46)	(81)		(45)	(	(109)
Balance at December 31, 1999		-		35	62		30		127
Cash Payments		-		(24)	(20)		(18)		(62)
Balance at December 31, 2000	\$	_	\$	11	\$ 42	\$	12	\$	65

#### MEDICAL COSTS

During the second quarter of 1998, we recorded \$175 million of medical cost charges. Of this amount, \$120 million related to Medicare contract losses and Increases to Medicare medical costs payable estimates, and \$55 million related to increases to commercial medical costs payable estimates.

#### (5) AARP CONTRACT

In February 1997, we entered into a 10-year contract to provide insurance products and services to members of AARP. Under the terms of the contract, we are compensated for claim administration and other services as well as for assuming underwriting risk. We are also engaged in product development activities to complement the Insurance offerings under this program. Premium revenues from our portion of the AARP insurance offerings were approximately \$3.5 billion during 2000, 1999 and 1998.

The underwriting results related to the AARP business are recorded as an increase or decrease to a rate stabilization fund (RSF). The primary components of the underwriting results are premium revenue, medical costs, investment income, administrative expenses, member service expenses, marketing expenses and premium taxes. To the extent underwriting losses exceed the balance in the RSF, we would be required to fund the deficit. Any deficit we fund could be recovered by underwriting gains in future periods of the contract. The RSF balance is reported in Other Policy Liabilities in the accompanying Consolidated Balance Sheets. We believe the RSF balance is sufficient to cover potential future underwriting or other risks associated with the contract.

We assumed the policy and other policy liabilities related to the AARP program and received cash and premium receivables from the previous insurance carrier equal to the carrying value of the liabilities assumed as of January 1, 1998. The following AARP program-related assets and liabilities are included in our Consolidated Balance Sheets (in millions):

	Balance as of December		
	2000	1999	
Assets Under Management	\$ 1,625	\$ 1,307	
Accounts Receivable	\$ 277	\$ 276	
Medical Costs Payable	\$ 855	\$ 791	
Other Policy Liabilities	\$ 932	\$ 713	
Accounts Payable and Accrued Liabilities	\$ 11 <b>5</b>	\$ 79	

The effects of changes in balance sheet amounts associated with the AARP program accrue to AARP policy-holders through the RSF balance. Accordingly, we do not include the effect of such changes in our Consolidated Statements of Cash Flows.

#### (6) CASH, CASH EQUIVALENTS AND INVESTMENTS

As of December 31, the amortized cost, gross unrealized holding gains and losses, and fair value of cash, cash equivalents and investments were as follows (in millions):

2000	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Cash and Cash Equivalents	\$ 1,419	<b>s</b> –	\$ ~	\$ 1,419
Debt Securities - Available for Sale	3,198	89	(6)	3,281
Equity Securities - Available for Sale	201	61	-	262
Debt Securities - Held to Maturity	91	~	. <del></del>	91
Total Cash and Investments	\$ 4,909	\$ 150	\$ (6)	\$ 5,053
1999				
Cash and Cash Equivalents	\$ 1,605	\$ -	<b>s</b> –	\$1,605
Debt Securities — Available for Sale	2,605	4	(58)	2,551
Equity Securities — Available for Sale	166	318	`-	484
Debt Securities — Held to Maturity	79	-	**	79
Total Cash and investments	<b>\$</b> 4,455	\$ 322	\$ (58)	\$ 4,719

As of December 31, 2000, debt securities consisted of \$855 million in U.S. Government obligations, \$1,386 million in state and municipal obligations, and \$1,131 million in corporate obligations. At December 31, 2000, we held \$209 million in debt securities with maturities less than one year, \$1,227 million in debt securities maturing in one to five years, and \$1,936 million in debt securities with maturities of more than five years.

We recorded realized gains and losses on the sale of investments, excluding UnitedHealth Capital investments, as follows (in millions):

	For the Year Enged December 31,					
	2000	1999	1998			
Gross Realized Gains	\$ 12	\$ 9	\$ 31			
Gross Realized Losses	(46)	(15)	(5)			
Net Realized Gains (Losses)	\$ (34)	\$ (6)	s 26			

During 2000 and 1999, respectively, we contributed UnitedHealth Capital investments valued at approximately \$52 million and \$50 million to the UnitedHealth Foundation. The realized gain of approximately \$51 million in 2000 and \$49 million in 1999 was offset by the related contribution expense of \$52 million in 2000 and \$50 million in 1999. The \$1 million net expense of these transactions in both 2000 and 1999 is included in Investment and Other Income in the accompanying Consolidated Statements of Operations.

In a separate disposition of UnitedHealth Capital investments during 2000, we realized a gain of \$27 million.

#### (7) COMMERCIAL PAPER AND DEBT

Commercial paper and debt consisted of the following as of December 31 (in millions):

	2000		199	9
	Carrying Value	Fair Value	Carrying Vatue	Fair Value
Commercial Paper	\$ 409	\$ 409	\$ 591	\$ 591
Floating Rate Notes				
due November 2001	150	150	150	150
6.6% Senior Unsecured Notes				
due December 2003	250	250	250	238
7.5% Senior Unsecured Notes				
due November 2005	400	413	_	_
Total Commercial Paper and Debt	1,209	1, <b>22</b> 2	991	979
Less Current Maturities	(559)	(559)	(591)	(591)
Total Long-Term Debt	\$ 650	\$ 663	\$ 400	\$ 388

As of December 31, 2000, our outstanding commercial paper had interest rates ranging from 6.6% to 6.9%. In November 1999, we issued \$150 million of two-year floating-rate notes. The interest rate is adjusted quarterly to the three-month LIBOR (London Interbank Offered Rate) plus 0.5%. As of December 31, 2000, the applicable rate was 7.25%.

In July 2000, we executed new credit arrangements supporting our commercial paper program for an aggregate of \$900 million. These credit arrangements are composed of a \$450 million revolving credit facility expiring In July 2005, and a \$450 million, 364-day facility expiring In July 2001. We also have the capacity to issue approximately \$200 million of extendible commercial notes (ECNs). During 2000, we had no amounts outstanding under our credit facilities or ECNs.

Our debt agreements and credit facilities contain various covenants, the most restrictive of which place limitations on secured and unsecured borrowings and require us to exceed minimum interest coverage levels. We are in compliance with the requirements of all debt covenants.

Maturitles of commercial paper and debt for the years ending December 31 are as follows (in millions):

2001	2002	2003	2004	2005
\$ 559		\$ 250	<u></u>	\$ 400

We made cash payments for interest of \$68 million and \$43 million in 2000 and 1999, respectively. We made no cash payments for interest in 1998.

#### (8) SHAREHOLDERS' EQUITY

#### REGULATORY CAPITAL AND DIVIDEND RESTRICTIONS

Our operations are conducted through our wholly-owned subsidiaries, which include health maintenance organizations and insurance companies. These companies are subject to state regulations that, among other things, may require the maintenance of minimum levels of statutory capital, as defined by each state, and restrict the timing and amount of dividends and other distributions that may be paid to their respective parent companies. Generally, the amount of dividend distributions that may be paid by our regulated subsidiaries, without prior approval by state regulatory authorities, is limited based on the entity's level of statutory net income and statutory capital and surplus. Approximately \$4.7 billion of our \$5.1 billion of cash and investments at December 31, 2000, was held by regulated subsidiaries.

The National Association of Insurance Commissioners has developed minimum capitalization guidelines for health maintenance organizations, subject to state-by-state adoption. Many states have adopted and other states will likely adopt some form of these rules. We do not expect that further state adoptions or implementations will require us to make significant incremental investments of general corporate resources into regulated subsidiaries.

#### STOCK REPURCHASE PROGRAM

Under the board of directors' authorization, we are operating a common stock repurchase program. Repurchases may be made from time to time at prevailing prices, subject to certain restrictions on volume, pricing and timing. During 2000, we repurchased 31.0 million shares for an aggregate of \$1.2 billion. Since inception of our stock repurchase activities in November 1997 through December 31, 2000, we have repurchased 92.9 million shares for an aggregate of \$2.6 billion. As of December 31, 2000, we have board of directors' authorization to purchase up to an additional 28.4 million shares of our common stock.

As a component of our share repurchase activities, we have entered into agreements to purchase shares of our common stock, where the number of shares we purchase, if any, is dependent upon market conditions and other contractual terms. As of December 31, 2000, we have agreements to purchase up to 8.9 million shares of our common stock at various times through 2003, at an average cost of approximately \$40 per share.

#### COMMON STOCK SPLIT

In October 2000, our board of directors declared a two-for-one split of the company's common stock in the form of a 100 percent common stock dividend. The dividend was issued on December 22, 2000, to shareholders of record as of December 1, 2000. The accompanying consolidated financial statements have been restated to reflect the share and per share effects of the common stock split.

#### DIVIDENDS

On February 13, 2001, the board of directors approved an annual dividend for 2001 of \$0.03 per share. The dividend will be paid on April 18, 2001, to shareholders of record at the close of business on April 2, 2001.

#### PREFERRED STOCK

In December 1998, the company redeemed all 500,000 outstanding shares of 5.75% Series A Convertible Preferred Stock. At December 31, 2000, we have 10 million shares of \$0.001 par value preferred stock authorized for issuance, and no preferred shares issued and outstanding.

#### (9) STOCK BASED COMPENSATION PLANS

The company maintains various stock and incentive plans for the benefit of eligible employees and directors. As of December 31, 2000, employee stock and incentive plans allowed for the future granting of up to 22.4 million shares as incentive or non-qualified stock options, stock appreciation rights, restricted stock awards and performance awards. Our non-employee director stock option plan allowed for future granting of 825,000 non-qualified stock options as of December 31, 2000.

Stock options are granted at an exercise price not less than the fair market value of the common stock at the date of grant. They may be exercised over varying periods and up to 10 years from the date of grant. A summary of activity under our various stock plans is presented in the table below (shares in thousands):

		2000			1999		1	998		
	1	<b>Weighte</b>	d-Average		Weighted-Average		Weighted-Average			
	Shares	Exerci	se Price	Shares	Exerci	se Price	Shares	Exercis	e Price	
Outstanding at Beginning of Year	44,080	\$	19	36,748	\$	19	34,226	\$	17	
Granted	8,516	\$	30	14,406	\$	20	11,694	\$	20	
Exercised	(12,331)	\$	17	(4,666)	\$	17	(6,758)	\$	12	
Forfeited	(1,455)	\$	20	(2,408)	\$	20	(2,414)	\$	20	
Outstanding at End of Year	38,810	\$	22	44,080	\$	19	36,748	\$	19	
Exercisable at End of Year	17,367	\$	20	15,558	\$	17	13,450	\$	17	

		Ottions Outstanding Weighted-Average					Ootlons Exercisab			
Range of Exercise Prices	Number Outstanding	Remaining Option Term (years)		id-Average ise Price	Number Exercisable		1-Average se Price			
\$ 0-\$20	9,723	6.0	\$	17	6,755	\$	16			
\$21-\$30	25,611	8.1	\$	22	10,482	\$	22			
\$31-\$40	3,269	9.5	\$	39	130	\$	34			
\$41-\$50	207	9.6	\$	44	_	\$	-			
\$ 0-\$50	38,810	7.7	\$	22	17,367	\$	20			

We do not recognize compensation expense in connection with stock option grants because we grant stock options at exercise prices that equal or exceed the fair market value of the stock at the time options are granted. If we had determined compensation expense using fair market values for the stock options, net earnings (loss) per common share would have been reduced to the following proforma amounts:

_	2000	1999	1998
Net Earnings (Loss) (in millions)			
As Reported	\$ 736	\$ 568	\$ (166)
Pro Forma	\$ 660	\$ 531	\$ (206)
Diluted Net Earnings (Loss) Per			
Common Share			
As Reported	\$ 2.19	\$ 1.60	<b>\$</b> (0.56)
Pro Forma	\$ 2.04	\$ 1.50	\$ (0.67)
Weighted-Average Fair Value Per Share of			
Options Granted	\$ 14	\$ 12	\$ 8

To determine compensation cost under the fair value method, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. Principal assumptions used in applying the Black-Scholes model were as follows:

	2000	1999	1998
Risk-Free Interest Rate	5.0%	6.7%	5.2%
Expected Volatility	49.0%	50.0%	46.0%
Expected Dividend Yield	0.1%	0.1%	0.1%
Expected Life in Years	4.5	5.0	5.8

We also maintain a non-leveraged employee stock ownership plan and an employee stock purchase plan. Activity related to these plans was not material in relation to our consolidated financial results in 2000, 1999 and 1998.

#### (10) INCOME TAXES

#### Components of the Provision (Benefit) for Income Taxes

Year Ended December 31, an millions	2000	1999	1998
Current			
Federal	\$ 330	\$ 264	\$ 273
State	38	36	31
Total Current	368	300	304
Deferred	51	26	(184)
Total Provision	\$ 419	\$ 326	\$ 120

### Reconcillation of the Tax Provision at the U.S. Federal Statutory Rate to the Provision for Income Taxes

Year Ended December 31, (in millions)	2000	1999	1998
Tax Provision (Benefit) at the			•
U.S. Federal Statutory Rate	\$ 404	\$ 313	\$ (16)
State Income Taxes, net of federal benefit	29	24	19
Tax-Exempt Investment Income	(17)	(16)	(25)
Non-Deductible Amortization	27	25	24
Non-Deductible Asset Impairments	_	_	100
Charitable Contributions	(18)	(16)	-
Other, net	(5)	(4)	18
Provision for Income Taxes	\$ 419	\$ 326	\$ 120

### Components of Deferred Income Tax Assets and Liabilities

December 31, (in millions)	2000	1999
Deferred Income Tax Assets		
Accrued Expenses and Allowances	<b>\$ 126</b>	\$ 101
Uneamed Premiums	74	87
Medical Costs Payable and		
Other Policy Liabilities	84	62
Net Operating Loss Carryforwards	42	43
Other	10	10
Subtotal	336	303
Less: Valuation Allowances	(56)	(52)
Total Deferred Income Tax Assets	280	251
Deferred Income Tax Liabilities		
Capitalized Software Development	(80)	(54)
Net Unrealized Gains on Investments		ν- /
Available for Sale	(59)	(97)
Depreciation & Amortization	(12)	(4)
Total Deferred Income Tax Liabilities	(151)	(155)
Net Deferred Income Tax Assets	\$ 129	\$ 96

Valuation allowances are provided when it is considered unlikely that deferred tax assets will be realized. The valuation allowance primarily relates to future tax benefits on certain purchased domestic and foreign net operating losses.

We made cash payments for income taxes of \$352 million in 2000, \$214 million in 1999 and \$245 million in 1998. We increased additional paid-in capital by \$116 million in 2000, \$23 million in 1999 and \$47 million in 1998 to reflect the tax benefit we received upon the exercise of non-qualified stock options.

Consolidated Income tax returns for fiscal years 1996 through 1999 are currently being examined by the Internal Revenue Service. We do not believe any adjustments that may result will have a significant impact on our consolidated operating results or financial position.

#### (11) COMMITMENTS AND CONTINGENCIES

#### LEASES

We lease facilities, computer hardware and other equipment under long-term operating leases that are non-cancelable and expire on various dates through 2011. Rent expense under all operating leases was \$132 million in 2000, \$129 million in 1999 and \$119 million in 1998.

At December 31, 2000, future minimum annual lease payments under all non-cancelable operating leases were as follows (in millions):

2001	2002	2003	2004	2005	Thereafter
\$ 121	\$ 108	\$ 95	\$ 84	\$ 74	\$ 340

#### SERVICE AGREEMENTS

In 1995 and 1996, we entered into three separate contracts for certain data center operations and support, and network and voice communication services, each with an approximate term of 10 years. Expenses incurred in connection with these agreements were \$182 million in 2000, \$172 million in 1999 and \$162 million in 1998.

#### LEGAL MATTERS

Because of the nature of our business, we are routinely subject to suits alleging various causes of action. Some of these suits may include claims for substantial non-economic or punitive damages. We do not believe that any such actions, or any other types of actions, currently threatened or pending will, individually or in the aggregate, have a material adverse effect on our financial position or results of operations.

#### GOVERNMENT REGULATION

Our business is regulated at federal, state and local levels. The laws and rules governing our business are subject to frequent change and broad latitude is given to the agencies administering those regulations. State legislatures and Congress continue to focus on health care issues as the subject of proposed legislation. Existing or future laws and rules could force us to change how we do business, restrict revenue and enrollment growth, increase our health care and administrative costs and capital requirements, and increase our liability for medical malpractice or other actions. Further, we must obtain and maintain regulatory approvals to market many of our products.

We are also subject to various governmental reviews, audits and investigations. However, we do not believe the results of any of the current audits, individually or in the aggregate, will have a material adverse effect on our financial position or results of operations.

#### (12) SEGMENT FINANCIAL INFORMATION

Our accounting policies for business segment operations are the same as those described in the Summary of Significant Accounting Policies (see Note 2). Transactions between business segments are recorded at their estimated fair value, as if they were purchased from or sold to third parties. All intersegment transactions are eliminated in consolidation. In accordance with generally accepted accounting principles, segments with similar economic characteristics may be combined. The financial results of UnitedHealthcare and Ovations have been combined in the Health Care Services segment column in the tables presented on the next page (in millions):

2000		ealth Care				pecalized			c	orporate	
2000		Services		Uniprise		re Services		ingenix		9mnations	Consolidated
Revenues External Customers	\$	18,502	\$	1,595	\$	503	\$	290	\$	-	\$ 20,890
Revenues — Intersegment		-		5 <b>20</b>		461		85		(1,066)	<del></del>
Investment and Other Income		194		25		10				3	232
Total Revenues	\$	18,696	\$	2,140	\$	974	\$	375	\$	(1,063)	\$ 21,122
Earnings (Loss) From Operations	\$	739	\$	289	\$	174	\$	32	\$	(34)	\$ 1,200
Total Assets'	\$	8,118	\$	1.578	\$	525	\$	730	\$	(133)	\$ 10,818
Net Assets'	\$	3,085	\$	•	\$	276	\$	617	\$	(113)	\$ 4,843
Purchases of Property and Equipment											
and Capitalized Software	\$	88	\$	94	\$	28	\$	35	\$	_	\$ 245
Depreciation and Amortization	5	100	\$	_	\$	25	\$	47	\$	***	\$ 247
1999											
Revenues - External Customers	\$	17,419	\$	1,398	\$	328	\$	198	\$	_	\$19,343
Revenues - Intersegment	•	-	•	445	•	393	•	59	•	(897)	Ψ 10,040
Investment and Other Income		162		22		5		1		29	219
Total Revenues	\$	17,581	. \$	1,865	\$	726	\$	258	\$	(868)	\$19,562
Earnings (Loss) From Operations	\$	578	\$	222	\$	128	s	25	¢	(4.0)	\$ 943
Total Assets <sup>1</sup>	-	•					-		\$	(10)	<b>-</b>
	_	7,364	\$	1,411	\$	446	\$	683	\$	206	\$10,110
Net Assets¹	\$	2,892	\$	953	S	230	\$	573	\$	221	\$ 4,869
Purchases of Property and Equipment	_										
and Capitalized Software	\$	69	\$	71	\$	28	\$	28	\$		\$ 196
Depreciation and Amortization	\$	97	\$	76	\$	23	\$	37	\$	-	\$ 233
1998											
Revenues External Customers	\$1	15,463	\$	1,238	\$	274	\$	131	\$	-	\$17,106
Revenues Intersegment		-		357		339		52		(748)	· <u>-</u>
Investment and Other Income		149		29		5		1		65	249
Total Revenues	\$1	15,612	\$	1,624	\$	618	\$	184	\$	(683)	\$ 17,355
Earnings (Loss) From Operations <sup>2</sup>	\$	503	\$	161	\$	109	s	20	\$	65	\$ 858
Total Assets 1	\$	6,652	\$	1.499	Š	231	\$	472	\$	555	\$ 9,409
Net Assets¹		2,512	\$	940	\$	89	Š	388	\$	555	\$ 4,484
Purchases of Property and Equipment											
and Capitalized Software	\$	80	\$	93	\$	27	\$	10	\$	_	\$ 210
Depreciation and Amortization	Š	90	\$	59	Š	14	\$	22	S	_	\$ 185
· · · · · · · · · · · · · · · · · · ·	•	~~	~	•	•	• •	•		Ψ		w .co

Total Assets and Net Assets exclude, where applicable, debt and accrued interest of \$1,222 million, \$1,002 million and \$708 million, income tax-related assets of \$235 million, \$163 million and \$266 million, and income tax-related assets of \$235 million, \$167 million and \$4 million as of December 31, 2000, 1999 and 1998, respectively.

For comparability purposes, 1998 results are adjusted to exclude \$725 million of operational realignment and other charges and \$175 million of charges related to contract loss-associated with certain Medicare markets and other increases to commercial and Medicare medical costs payable estimates. Including these charges, 1998 segment operating earnings (loss) from operations were as follows:

	Year Ended December 31, 1998				
Health Care Services	\$	(46)			
Uniprise		10			
Specialized Care Services		14			
Ingenix		(66)			
Total Operating Segments		(88)			
Corporate		46			
Total Consolidated	\$	(4Z)			

### (13) QUARTERLY FINANCIAL DATA (UNAUDITED)

	Quarter Ended								
(in millions, except per share data)		March 31		June 30		September 30		December 31	
2000									
Revenues	\$	5,099	\$	5,220	\$	5,3 <b>6</b> 9	\$	5,434	
Medical and Operating Costs	\$	4,826	5	4,932	\$	5,060	\$	5,104	
Net Earnings Applicable to									
Common Shareholders	\$	174'	\$	170	\$	182	\$	2102	
Basic Net Earnings per Common Share	\$	0.53	\$	0.52	\$	0.56	\$	0.66	
Diluted Net Earnings per Common Share	\$	0.52	. \$	0.50	\$	0.54	\$	0.63²	
1999									
Revenues	\$	4,809	\$	4,858	\$	4,903	\$	4,992	
Medical and Operating Costs	\$	4,588	\$	4,633	\$	4,664	\$	4,734	
Net Earnings Applicable to									
Common Shareholders	\$	132	\$	135	\$	144	\$	157³	
Basic Net Earnings per Common Share	\$	0.36	\$	0.39	\$	0.41	\$	0.47	
Diluted Net Earnings per Common Share	\$	0.36	\$	0.38	\$	0.40	\$	0.463	

Diluted Net Earnings per Common Share

\$ 0.36 \$ 0.38 \$ 0.40 \$ 0.463

1 Includes a \$14 million, net permanent tax bensitit related to the contribution of UnitedHealth Capital Investments to the UnitedHealth Foundation, Excluding the benefit, Net Earnings Applicable to Common Shareholders and Diluted Net Earnings Per Common Share were \$160 million of \$0.48 per share, respectively.

2 Includes a \$27 million gain (\$17 million after-tax) related to the disposition of UnitedHealth Capital Investments, Excluding this gain, Net Earnings and Diluted Net Earnings per Common Share were \$130 million and \$0.58 per share, respectively.

3 Includes a net permanent tax benefit primarily related to the contribution of UnitedHealth Capital Investments to the UnitedHealth Foundation, Excluding this benefit, Net Earnings Applicable to Common Shareholders and Diluted Net Earnings per Common Share were \$152 million and \$0.44 per share, respectively.

# REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and Directors of UnitedHealth Group Incorporated:

We have audited the accompanying consolidated balance sheets of UnitedHealth Group Incorporated (a Minnesota Corporation) and Subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UnitedHealth Group Incorporated and its Subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP Minneapolis, Minnesota February 2, 2001

#### REPORT OF MANAGEMENT

The management of UnitedHealth Group is responsible for the Integrity and objectivity of the consolidated financial information contained in this annual report. The consolidated financial statements and related Information were prepared according to generally accepted accounting principles and include some amounts that are based on management's best estimates and judgments.

To meet its responsibility, management depends on its accounting systems and related internal accounting controls. These systems are designed to provide reasonable assurance, at an appropriate cost, that financial records are reliable for use in preparing financial statements and that assets are safeguarded. Qualified personnel throughout the organization maintain and monitor these internal accounting controls on an ongoing basis.

The Audit Committee of the board of directors, composed entirely of directors who are not employees of the company, meets periodically and privately with the company's independent public accountants and management to review accounting, auditing, internal control, financial reporting and other matters.

William W. McGuire, M.D. Chairman and Chief Executive Officer

Stephen J. Hemsley
President and Chief Operating Officer

Patrick J. Erlandson Chief Financial Officer

#### CORPORATE AND BUSINESS LEADERS

UnitedHealth Group

William W. McGuire, M.D.

Chairman and

Chief Executive Officer

Stephen J. Hemsley

President and

Chief Operating Officer

Patrick J. Erlandson

Chief Financial Officer

David J. Lubben

General Counsel

Jeannine M. Rivet
Executive Vice President

James B. Hudak Chief Executive Officer UnitedHealth Technologies

Reed V. Tuckson, M.D. Senior Vice President

Consumer Health and Medical

Care Advancement

L. Robert Dapper Senior Vice President

Human Capital

John S. Penshorn Director of Capital Markets

Communications and Strategy

UnitedHealthcare

Robert J. Sheehy

Chief Executive Officer

**Ovations** 

Lois Quam

Chief Executive Officer

Uniprise

R. Channing Wheeler

Chief Executive Officer

Specialized Care Services

Ronald B. Colby

Chief Executive Officer

Ingenix

Jeannine M. Rivet

Chief Executive Officer

#### BOARD OF DIRECTORS

William C. Ballard, Jr.
Of Counsel
Greenbaum, Doll & McDonald
Louisville, Kentucky, taw firm

Richard T. Burke Former Chairman and Chief Executive Officer United HeatthCare Corporation

Stephen J. Hernsley President and Chief Operating Officer UnitedHealth Group

James A. Johnson Chairman and Chief Executive Officer Johnson Capital Partners Private investment company

Thornas H. Kean President Drew University

Douglas W. Leatherdale Chairman and Chief Executive Officer The Saint Paul Companies Inc. Insurance and related services

William W. McGulre, M.D. Chairman and Chief Executive Officer UnitedHealth Group Walter F. Mondale Partner Dorsey & Whitney LLP Minneapolls, Minnesota, law firm

Mary O. Mundinger
Dean and Professor, School of Nursing,
and Associate Dean,
Faculty of Medicine
Columbia University

Robert L. Ryan Senior Vice President and Chief Financial Officer Medironic, Inc. Medical devices company

William G. Spears
Managing Partner
W. G. Spears Grisant &
Brown LLC
New York City-based investment
counseling and management firm

Gail R. Wilensky Senior Fellow Project HOPE International health foundation Audit Committee William C. Ballard, Jr. James A. Johnson Douglas W. Leatherdale Robert L. Ryan

Compensation and Human Resources Committee Thomas H. Kean Mary O. Mundinger William G. Spears

Compliance and Government Affairs Committee Richard T. Burke Walter F. Mondale Gail R. Wilensky

Executive Committee
William C. Ballard, Jr.
Douglas W. Leatherdale
William W. McGuire, M.D.
William G. Spears

Nominating Committee William C. Ballard, Jr. Thomas H. Kean Douglas W. Leatherdale William W. McGuire, M.D. William G. Spears

Growth & Profits — Consolidated (In millions, except per share data)	1998	1999	2000
Revenues Continuing Markets Revenue Growth Rate	\$ 17,355 12%	\$ 19,562 13%	\$ 21,122 12%
Earnings from Operations Operating Margin Return on Net Assets	\$ 858 4.9% 17.7%	\$ 943 4.8% 19.8%	\$ 1,200 5.7% 25,5%
Net Earnings Net Margin	\$ 509 2.9%	\$ 563 · 2.9%	\$ 705 3.3%
Diluted Net Earnings Per Share	\$ 1.31	\$ 1.59	\$ 2.10
Growth & Profits — By Segment' (in m#ions)	1998	1999	2000
Health Care Services Revenues Earnings from Operations Operating Margin Return on Net Assets Uniprise Revenues Earnings from Operations Operating Margin Return on Net Assets Specialized Care Services Revenues Earnings from Operations Operating Margin Return on Net Assets Ingenix Revenues Earnings from Operations Operating Margin Return on Net Assets Ingenix Revenues Earnings from Operations Operating Margin Return on Net Assets	\$ 15,612 \$ 503 3.2% 20.0% \$ 1,624 \$ 161 9.9% 16.7% \$ 618 \$ 109 17.6% 105.8% \$ 184 \$ 20 10.9% 7.3%	\$ 17,581 \$ 578 3.3% 20.6% \$ 1,865 \$ 222 11.9% 22.6% \$ 726 \$ 128 17.6% 80.0% \$ 258 \$ 25 9.7% 5.4%	\$ 18,696 \$ 739 4.0% 24.6% \$ 2,140 \$ 289 13.5% 30.6% \$ 974 \$ 174 17.9% 68.8% \$ 375 \$ 32 8.5% 5.2%
Capital Items' (in millions, except per share data)	1998	1999	2000
Cash Flows from Operations	\$ 1,071	\$ 1,189	\$ 1,521
Capital Expenditures	\$ 210	<b>\$</b> 196	\$ 245
Cash Pald for Acquisitions	\$ 464	\$ 334	\$ 76
Debt to Total Capital	nm	20.4%	24.7%
Return on Shareholders' Equity	11.9%	14.1%	19.0%
Year-End Market Capitalization	\$ 7,920	\$ 8,896	\$ 19,470
Year-End Common Share Price	\$ 21.53	\$ 26.56	\$ 61.38

<sup>\*</sup> Excludes nonrecurring items and special operating charges.

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#### Market Price of Common Stock

The following table shows the range of high and low sales prices for the company's stock as reported on the New York Stock Exchange Composite Tape for the calendar periods shown through February 26, 2001. These prices do not include commissions or fees associated with purchasing or selling this security.

	High	Low
2001		
First Quarter 2001		
Through February 26, 2001	\$ 62.41	\$ 51.56
2000		
First Quarter 2000	\$ 32.33	\$ 23.18
Second Quarter 2000	\$ 44.50	\$ 28.88
Third Quarter 2000	\$ 50.56	\$ 39.06
Fourth Quarter 2000	\$ 63.44	\$ 48.63
1999		
First Quarter 1999	\$ 27.34	\$ 19.72
Second Quarter 1999	\$ 35.00	\$ 22.35
Third Quarter 1999	\$ 33.35	\$ 24.03
Fourth Quarter 1999	\$ 29.25	\$ 19.69

#### **Account Questions**

Our transfer agent, Wells Fargo, National Association, can help you with a variety of shareholder-related services, including:

Change of address

Lost stock certificates

Transfer of stock to another person

Additional administrative services

You can call our transfer agent at (800) 468-9716 or locally at (651) 450-4064.

You can write them at:

Wells Fargo Shareowner Services

P.O. Box 64854

Saint Paul, Minnesota 55164-0854

Or you can e-mail our transfer agent at: stocktransfer@wellsfargo.com

#### **Investor Relations**

You can contact UnitedHealth Group's Investor Relations group any time to order, without charge, financial documents, such as the annual report and Form 10-K. You can write to us at:

Investor Relations, MN008-T930

UnitedHealth Group

P.O. Box 1459

Minneapolls, Minnesota 55440-1459

#### **Annual Meeting**

We invite UnitedHealth Group shareholders to attend our annual meeting, which will be held on Wednesday, May 9, 2001, at 10 a.m., at UnitedHealth Group Center, 9900 Bren Road East, Minnetonka, Minnesota.

#### **Dividend Policy**

UnitedHealth Group's dividend policy was established by the board of directors in August 1990. The policy requires the board to review the company's audited financial statements following the end of each fiscal year and decide whether it is advisable to declare a dividend on the outstanding shares of common stock.

Shareholders of record on April 1, 2000, received an annual dividend for 2000 of \$0.015 per share. On October 24, 2000, UnitedHealth Group's board of directors declared a two-for-one stock split. On February 13, 2001, the company's board of directors approved an annual dividend for 2001 of \$0.03 per share. The dividend will be paid on April 18, 2001, to shareholders of record at the close of business on April 2, 2001.

#### Stock Listing

The company's common stock is traded on the New York Stock Exchange under the symbol UNH.

#### Information Online

You can view our annual report and obtain more information about UnitedHealth Group and its businesses via the Internet at:

www.unitedhealthgroup.com

# UnitedHealth Group

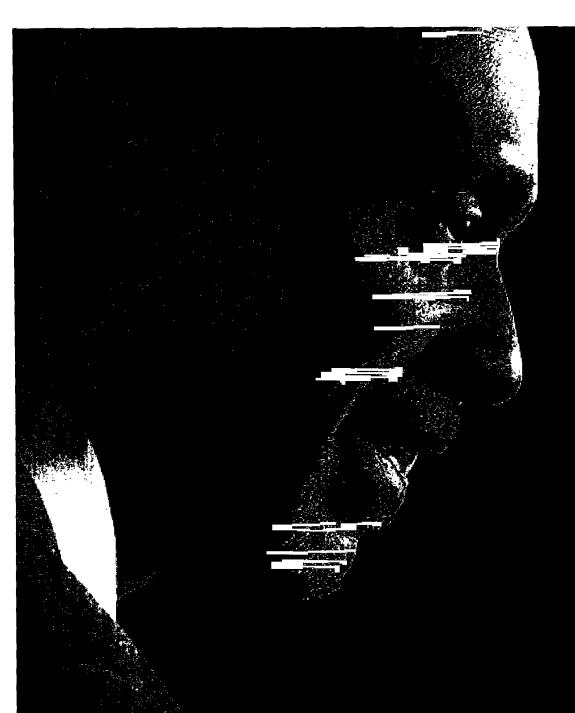
UnitedHealth Group UnitedHealth Group Center 9900 Bren Road East Minnetonka, Minnesota 55343 (800) 328-5979 MAKING HEALTH CARE MORE

# MORE ACCESSIBLE



# MORE AFFORDABLE





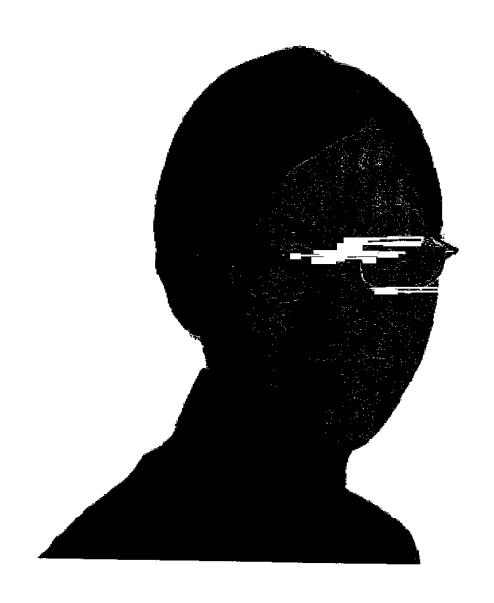
MORE EFFICIENT



MORE RESPONSIVE

# MORE SUPPORTIVE





#### LETTER FROM THE CHAIRMAN

Each year I write to you discussing the strength of our company's annual performance, its key elements and the continuing growth strategies we are pursuing, which have now created a decade with a compound annual growth rate of 25 percent. This year's results demonstrate that our momentum remains as strong as ever, and we are poised to sustain and advance our performance as we enter 2002. I will depart from my customary approach and — after a brief discussion of 2001 results — focus the balance of this letter on the important challenges within our national health care system, how all of us can begin to address these challenges, and where we envision our company's role going forward.

This discussion is critical because our various stakeholders need to understand the issues to be faced within a broader strategic context. Broader vision is really what matters here, since the future opportunities for UnitedHealth Group are ultimately intertwined with the positive evolution of our nation's health care policies. Our approach to building shareholder value will be shaped by the

direction our nation's health care system pursues. 2001 FINANCIAL RESULTS

The future direction of UnitedHealth Group remains unchanged, propelled not so much by prior successes, but by the powerful future opportunities that are a product of the continuing pressures on our health care system and the growing needs of all those who participate in and depend on it. We have responded positively to those needs in the past, and our strong 2001 results underscore our advancing capabilities:

- > Revenues rose more than 11 percent to \$23.5 billion, representing a more diversified and balanced revenue stream than ever before.
- > Larnings per share for 2001 grew 33 percent, following a 32 percent increase from 2000.
- Cash flows from operations increased to more than \$1.8 billion, a 21 percent increase.
- > Return on equity rose to more than 24 percent for the year.
- > We provided services to over 1.4 million more Americans than in 2000 and now directly serve more than 38 million people through our companies.
- > As many stocks suffered the effects of a broad economic downturn, our share price increased 15 percent in 2001, following a 130 percent increase in 2000 and a 23 percent increase in 1999.
- > We took major steps forward in Internet services, operational advancements to simplify services, and core system modernization to enhance current performance and future flexibility.

This year's results demonstrate that our momentum remains as strong as ever, and we are poised to sustain and advance our performance as we enter 2002.

The pages of this annual report document the depth, quality and diversification of our performance, providing clear and comprehensive analysis, discussion and disclosure. Accordingly, I will not delve further into that arena, but instead will offer some views on our nation's health care system. I come to this discussion not just as the chairman and chief executive of one of our nation's leading health care companies, but as a former practicing physician, medical researcher, a shareholder and, most importantly, a deeply concerned fellow citizen.

# OUR NATIONAL HEALTH CARE SYSTEM: CHALLENGES AND HOPE

This discussion is driven in part by personal disappointment and frustration with aspects of our nation's health system that are today sub optimal. But I am more motivated by hope and determination, feelings that are magnified when I consider the performance of UnitedHealth Group and its contributions to advancing health and well-being in the past year and, in fact, over the past decade. I firmly believe we at UnitedHealth Group can play a leadership role in addressing the challenges facing our nation directly and advance them to higher national prominence.

Make no mistake, these challenges are immense and are becoming more pressing by the day. From a failure to build a medical system based on science and efficiency, to vast and growing numbers of uninsured citizens, to the swelling ranks of those in need of chronic disease management, to wide variations in care delivery and inefficient use of resources: all of these problems suggest our health care system is seriously troubled and faces expanding challenges.

At its best, ours is a system of truly great assets and resources, unparalleled science and technology, and miraculous outcomes. But it is also an environment characterized by fragmented health care "systems" and agendas, unsupportable variation in clinical approaches to care, maldistribution of health services by geography and population segment, loose definitions of essential care services, no agreement on what constitutes quality or even safety, a general unwilling ness to make choices or give up on any chance for improvement no matter how remote, and a very wealthy and hugely consumptive society.

Against that backdrop, our national health care expenditures will exceed \$1.5 trillion this year, roughly 14 percent of the U.S. gross domestic product, and are projected to increase to more than \$2.6 trillion, or 16 percent of our GDP by 2010. Our fundamental problem is not that we spend too little, nor is it that we fail to generally cover enough benefits or services. Instead, we too often fail to spend wisely or appropriately, and we have not created a coherent system built on science, efficiency and optimal value for each and every one of our citizens.

In response to these issues, our nation's efforts have for too long worked at the edges of the problem. The opportunity to improve our health care system and,

UnitedHealth Group can play a leadership role in addressing the challenges facing our nation directly and advance them to higher national prominence

In turn, the health and well-being of every individual, lies in addressing underlying issues with approaches and tools that bridge populations, geographies and economics. The result should be a more efficient, simplified health system that is predicated on science and evidence in the utilization of its resources. Applied to all populations, it can function more effectively to lessen suffering and improve outcomes and, ultimately, will cost less while extending its benefits to every individual.

## FIXING THE SYSTEM: GOALS AND SOLUTIONS

Our goal must be no less than essential health care for all Americans. This will not be easy, given the endemic challenges of our health care system. But the result of our shortcomings now — just as in years past — is a waste of valuable resources and dollars, significantly escalating health care costs and decreasing access to essential care for many. This status quo cannot, and should not, continue. Left unaddressed, it will ultimately impose a social cost we cannot afford.

As part of addressing these issues, I suggest the following course of action:

> FIRST, we must promote a process that clearly defines what constitutes a basic health benefit package, and then work to deliver these basic benefits to everyone. The government should lead in this effort, since no other sector of our society can possibly spearhead such an initiative and support its ultimate authority. Importantly, in this endeavor we must avoid weighing down the process with too many agendas and avoid the narrow rhetoric of self-interest.

I do not advocate a broader role for government in operating our health services or adding further coverage mandates for the private sector. I am also opposed to a single payer health system. Indeed, there is no evidence that services operated by government are more effective or can outperform the private sector, and there is some evidence that would suggest the opposite. What is needed instead starts with an informed public consensus on the necessary attributes of a minimum, essential health benefit package made available to all and funded both by government and private sources as appropriate for the population in question. From there, it can fall to the private sector — including hospitals, physicians and related health professionals, employers, health plans and other intermediaries — to make these benefits available in the market-place as cost-effectively and creatively as possible. So-called "nonessential" and discretionary benefits can then be made available as supplements, based on the willingness of an individual, employer or other party to pay for them in a competitive marketplace.

An essential and basic benefit package should be based on firm evidence of the effectiveness and the cost efficiency of its components, and include a minimum set of health-promoting, health-protecting, diagnostic, therapeutic and restorative

elements. Accordingly, it may exclude many benefits and interventions now included in government-funded programs, as well as several current state or federal mandates that are unproven or nonessential. Other areas such as palliative care and selected behavioral health services may need to be strengthened. Clearly a challenging concept even if approached properly, the result would be critical service availability for all people, coupled with the potential for significantly improved resource deployment, curbed consumption, outcomes improvement and cost savings.

> SECOND, the administrative components of health care services need across-the-board simplification and standardization. Some of the core processes in the industry scream out for uniformity and interconnectivity. The current fragmentation in health care's administrative infrastructure — and the associated waste and inefficiency — is simply unacceptable in this day of advanced technology.

Participants in the health care arena, including companies such as our own. must step forward and jointly align basic data requirements, processes and guidelines. Tools and approaches that facilitate efficiency, accuracy and Jower costs — such as the use of the Internet for communication and data flow must be actively promoted and adopted. This means dislocation of some established but inefficient prior practices and venues, which is entirely appropriate given the issues and opportunity.

In this endeavor, government regulation must be prudent and applied carefully. Far too frequently we stifle efforts such as these with over-burdensome regulation, which in turn adds incremental costs and process complexity. But done properly, the rewards can be meaningful and rapid. This has been well demonstrated with UnitedHealth Group's deployment of free Internet portals that establish links with physicians, employers and individual consumers. In these cases, we have been at the forefront of best practices, and our efforts give a clear view of the gains to be made on behalf of all constituents. Yet, we have only scratched the surface in this area.

> THIRD, evidence-based medicine should be upheld as the standard of quality. Academic medical centers, physicians and their professional societies need to step forward and better define, promulgate and enforce a scientific and evidence-based system of medical practice. As physicians, we have often failed to optimize medical decision-making and the resultant health care outcomes, and thus have not adequately fulfilled our obligations. We must be equally concerned by under use of appropriate interventions that have proven scientific effectiveness, and the overuse of medical interventions that are not supported by good science or whose cost-benefit relationship is sub-optimal. Medicine is a science-based profession, and the wide variations that we witness in clinical practice too often represent poor quality care and waste of valuable resources.

Tools and approaches that facilitate efficiency, accuracy and lower costs - such as the use of the Internet for communication and data flow — must be actively promoted and adopted:

The distribution of up to date, scientifically based information to physicians and other health care providers needs to be expanded. We have extensive evidence that such efforts are well received and have a positive impact on approaches to care. Our UnitedHealth Foundation has documented this receptivity for information and support through its twice yearly distribution of Clinical Evidence—the definitive text on evidence-based medicine produced by the Brirish Medical Journal—to 500,000 physicians and other health professionals. In addition, we have experienced a significant and dramatic increase in use of the Internet as part of our business efforts to support enhanced integration of clinically relevant knowledge into medical practice, and provide physicians with feedback on their actual clinical practices compared against evidence-based standards.

On a related point, we should as a nation wholeheartedly support our federally operated research enterprises such as the National Institutes of Health as part of our ongoing investments in promoting scientific and evidence-based health care. It is essential that we maintain our leadership and contributions in medical research and discovery — for our nation and the world — and in turn apply their output to our society as a whole.

> FOURTH, health consumers must receive better information and decision-support tools as they participate, along with their physicians, in making health care decisions. The explosion in consumer information sources, combined with the Internet, provides both important opportunities and some risks. Information can enhance individual decision-making and help bridge gaps in our fragmented health delivery system, so we must promote this effort. At the same time, appropriate safeguards regarding the validity of data content as well as the privacy and confidentiality of individually identifiable health information are essential. A key part of the challenge, therefore, in providing health consumers with better information and decision support, is striking a balance between safeguarding privacy and avoiding over-regulation of health information sources.

Services that help facilitate care regimens, identify gaps in care that may result in sub-optimal outcomes, and direct preventive efforts in anticipation of future health issues are emerging today and should be promoted. Used in the increasingly complex environment of health care roday, they become valuable adjuncts to physicians, patients and families. This will become even more important as our population ages and chronic disease becomes more prevalent. These services and the information systems and technology upon which they are built, warrant our support and promotion.

The efforts and investments by UnitedHealth Group in this arena have clearly been of value to physicians, by helping them implement clinical regimens and stay alert to variances in clinical care approaches; to patients, by facilitating treatment programs and helping them navigate through complex issues; and

to employers and other health care payers, by lowering costs and improving the health status of those affected. Better resource utilization and improved short-term outcomes will translate into enhanced long term health and more appropriate economic outlays. Needless to say, these are positive gains for all,

#### LOOKING FORWARD: ACTION AND OPPORTUNITIES

Our nation has the most sophisticated and technology-rich health care system in the world. The tragedy of our nation's health care system is that, in spite of its many impressive features, it has ultimately failed to make even basic care consistently available to all of our citizens. While all of these considerations illuminate the shortcomings of our health care system, they also highlight the magnitude of the opportunity for our society by appropriately utilizing the many tools that are already at our disposal.

The rime for action is now. UnitedHealth Group remains committed to being a leader in resolving the problems and issues now chronic to our health care system. And we will pursue solutions on all fronts. We will continue to engage our national leaders to address fundamental issues rather than narrow interests that fail to advance the whole. We will continue to work with the medical community to strengthen the fact-based clinical evidence resources at their disposal, and to press for evidence based medicine to be upheld as the standard of quality and safety. Our investments in technology, information tools, facilitation of care and basic operating disciplines will help for years to come in addressing the challenges in our health care system regarding simplicity, efficiency, and analysis and distribution of important data in order to facilitate informed decision-making.

Resolving our health care problems, while retaining and enhancing all that is good in our health care system, will not happen overnight or without some pain. As all of us address the challenges and pursue the opportunities for improvement, I believe that UnitedHealth Group can demonstrate many of the better ways to approach health care. That, in rurn, has the potential to significantly enhance shareholder value. Yet there is far more at stake. Since our inception, we have sought to contribute toward the creation of a more effective health care system that can provide for the well-being of our nation and all of its people without exceptions. We would not be in this business otherwise. I promise to you that we will continue to do our part in advancing this national discussion, while helping to provide tangible solutions and services.

Sincerely,

pursue the opportunities
for improvement.
I believe that
UnitedHealth Group
can demonstrate many
of the better ways to

approach health care.

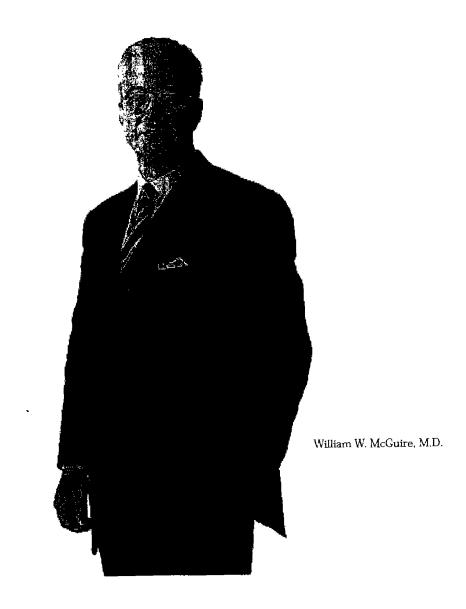
As all of us address

the challenges and

William W. M. Gura

Chairman and Chief Executive Officer

# MORE EFFECTIVE



# UnitedHealth Group

UnitedHealth Group provides a comprehensive and diversified array of health and well-being services through five operating business segments. Across all of its businesses. UnitedHealth Group advances its long-standing and fundamental commitment to broad and diverse access to care, choice based on consumer needs, simplicity in the health care experience, information to drive good decisions and improve products, help in facilitating and coordinating access to services, and support for patient safety.

UnitedHealth Group improves health care by focusing on key performance areas:

- > Improving processes. Through focused attention to process simplification and the practical application of advanced technologies. UnitedHealth Group continues to simplify the health care experience and provide quicker, more efficient service options for customers.
- > Advancing technology. Over the past three years. UnitedHealth Group has invested more than \$600 million in modernizing systems to strengthen customer interactions.
- > Using knowledge and information. United Health Group's data and information capabilities help customers, physicians and individual consumers make more informed health care decisions. These capabilities also help us design better and more innovative products and services.
- > Driving innovation. UnitedHealth Group continues to build on a tradition of business and product innovation. UnitedHealth Group is the clear leader in benefit product design, technology-based solutions, database analytics and services, and administrative services.
- > Operating discipline. UnitedHealth Group operating disciplines demand accountability and ownership, align people and assets, and set goals and measure the results. Focused operating disciplines ensure that maximum value is delivered for every health care dollar spent.

#### FINANCIAL PERFORMANCE

(in millions)		2001		2000		. 1999
Revenues	\$	23,454	\$	21,122	. \$	19,562
Earnings From Operations	<b>\$</b>	1,566	\$	- 1,200 <sub>:</sub> - '	\$.	943
Operating Margin	-	6.7%	4	- 5.7%		4.8%
Cash Flows From Operating Activities	\$	1,844	. \$	1.521	. \$	1,189
Capital Expenditures	. \$	425	\$	245	\$.	196
Return on Net Assets	and the second	30.7 %	-	25.5%		19.8%
Return on Equity'		24.5 %		_ 19.0%		14.1%

1 Excludes nonrecurring items in 1999 and 2000, as described in footnotes 1 and 2 at the bottom of page 22

- > Uniprise
- > Ingenix
- > UnitedHealthcare
- > Ovations
- > Specialized Care Services

Our diversified business segments use advanced technologies and intense market focus to design and deliver

MORE INNOVATIVE

health and well-being services.

## Uniprise

Uniprise is the leading provider of benefit delivery and service solutions for large, complex employers and insurers. In 2001, Uniprise served more than 1.3 million new individuals and currently serves more than 8.5 million individuals associated with nearly 300 organizations.

#### EFFICIENT, SIMPLIFIED SERVICE

Uniprise operates an advanced service environment that provides employers and their employees with faster, more effective service at a lower cost. Uniprise has a flexible and scalable infrastructure built on an integrated operating platform, which can combine UnitedHealthcare networks, benefits from Specialized Care Services, and benefit offerings from outside vendors chosen by customers to create simple, broad-based benefits packages.

Uniprise is a clear leader in Internet-based service capabilities, giving customers online, real-time access to services, transactions and information through fully functional, Web-enabled service portals. A single login gives employers easy access to integrated transaction services including:

- > Enrollment services. Instant access to integrated eligibility data enables single-entry eligibility changes and real-time eligibility updates.
- > Claim services. Employers can access aggregated claim data instantly.
- > Reporting. A fully integrated desktop solution gives employers reporting and analytic roots that help them evaluate performance and identify trends.
- > Electronic billing. Electronic billing capability eliminates paper invoices and enables employers to review and adjust bills online and remit payments electronically. This service, which is surpassing planned adoption targets, reduces costs and simplifies administrative processes for customers.

## BROAD CARE ACCESS AND EXCEPTIONAL VALUE

Uniprise delivers exceptional value through access to the entire UnitedHealth Group universe of hospitals, clinics, physicians, pharmacy services and ancillary care providers. Vast and easy access to services at exceptional rates translates into aggregate cost advantages for employers and consumers.

#### FINANCIAL PERFORMANCE

(in millions)		- ^		2001		2000	2	1999.
Revenues		-	·i\$	2,462	\$	2.140	- \$	1,865
Earnings From Operation	s.	٠.	\$	374	\$	289 .	- \$	222
Operating Margin		·		15.2%		13.5 %	-	11.9%
Return on Net Assets	5.00	- :		37.2 %	şi.	30.6%		22.6%

## Ingenix

Ingenix is an international leader in the field of health care data analysis and application. The company serves pharmaceutical companies, health insurers and payers, health care providers. large employers and government entities on a business-to-business basis with a broad portfolio of data tools, publications, and research and consulting services.

#### KNOWLEDGE AND INFORMATION SERVICES

A leading innovator within the health information and analytics marketplace. Ingenix continues to introduce new services that help clients leverage information assets, gain clinical and financial insights, advance the quality of health care delivery and administration and improve cost management. Ingenix has several recent product innovations.

- > Parallax  $i^{\infty}$  aggregates health data from multiple systems, enabling users to identify and analyze multifaceted benefits issues.
- Salaxy clinical database integrates longitudinal, population-based clinical information from multiple sources to enable statistically valid incasurement and analyses of health care utilization, effectiveness and cost.
- > Predictive modeling tools identify individuals with the greatest need for disease management and care facilitation and delineate potential interventions that will benefit them.

## INTEGRATED PHARMACEUTICAL SERVICES

Ingenix is a leader in scientific-based solutions that help accelerate the development and adoption of new therapies on a global basis. Services include clinical research, economic and outcomes research, drug safety research, and patient registries, medical education and communications. Ingenix was the top-ranked contract research organization in the United States in a survey of 405 investigative sites published in July 2001 by CenterWatch, a premier information source for the clinical trials industry. Ingenix is developing new Web-based solutions

- > Electronic data capture gives customers the ability to enter and access real-time data on clinical trial information.
- Interactive Web-based delivery of medical education programs will enable up to the minute access to clinical information and extend the reach of educational programs and services.

#### FINANCIAL PERFORMANCE

(in millions)	-		2001	*	2000		1999
Revenues		\$	447	\$	- 375 ·	\$	258
Farnings From Operations	1:	. \$	48	\$	32	\$	- 25
Operating Margin		2. 	10.7%	• •	8.5%	·	9.7%
Return on Net Assets		1 - 7.5.	7.5%	-	5.2%		5.4%_

# STORE VEN

## Health Care Services

The Health Care Services business segment includes the results of the UnitedHealthcare and Ovations businesses.

## UnitedHealthcare

UnitedHealthcare organizes health and well-being services for small and mid sized employers. UnitedHealthcare currently serves more than 7.5 million people associated with small business employers that have two to 50 employees and larger employers with up to 5.000 employees.

## **BROAD AND EASY ACCESS**

UnitedHealthcare provides individuals with simple, convenient access to a broad and diverse spectrum of fully qualified physicians and health care providers. Products are designed to promote direct access to the most appropriate care, and the company leverages the aggregate buying power of more than 16 million individuals to offer these services at fair prices for both health care buyers and providers of care. UnitedHealthcare strives to help physicians deliver quality care, using a collection of data-sharing tools to provide physicians with meaningful information they can use to improve the consistency of their clinical performance.

#### FACILITATING CARE

UnitedHealthcare employs a spectrum of easy-to-use service roofs and capabilities that help people access the care they need. This includes health information and education services, personal care facilitation and advocacy services, and pharmacy services.

#### SIMPLIFIED SERVICE

Web-enabled technology tools help UnitedHealthcare improve and simplify service.

- > More than 700,000 households representing 1.4 million individuals are registered with myuhc.com the company's consumer focused Web portal. Through myuhc.com, individuals can check their eligibility for benefits, review claim status, order ID cards, locate physicians, manage flexible spending accounts, order prescriptions and research more than 1,000 health and well-being topics.
- > Internet services for physicians enable them to check benefit eligibility for their patients, submit claims, and review claim and payment status. As of year-end, office practices representing more than 100,000 physicians were using the Web site. By year-end 2002, an additional 200,000 physicians are projected to adopt this service.
- > Small business brokers can enter the sales process using a Web-based distribution portal.

  Approximately 20 percent of new small business accounts are currently sourced through this site.

  By year-end 2002, 50 percent of the company's active small business brokers will use this Web site.

Ovations is the largest business in the United States devoted exclusively to meeting the health and well being needs of individuals age 50 and older.

#### SERVING AARP

In 2001, Ovations realized 10 percent enrollment growth in active AARP Medicare Supplement benefit plans. Ovations also reintroduced the AARP hospital indemnity product with modernized benefits for individuals ages 50 to 64.

### OVATIONS HEALTH AND WELL-BEING SERVICES

The rising cost of pharmaceutical products is one of the most significant issues affecting older Americans. Ovations operates the largest pharmacy discount drug program in America for AARP members, with annual revenues of more than \$300 million. As part of this business, Ovations also provides older Americans with a broad range of non-prescription health and well-being products.

#### EVERCARE

Evercare offers complete, individualized care planning, care facilitation and care benefits for aging, vulnerable and chronically ill individuals living on their own, or in community-based and assisted-living settings. Evercare serves nearly 200,000 individuals nationwide.

FINANCIAL PERFORMANCE -	HEALTH CARE SERVICES

(in millions)	2001	- 2000	1999
Revenues — UnitedHealthcare	\$ 16,237	. \$; 15,005	\$ 13,944
Revenues — Ovations	\$ 4,257	\$ 3,691	\$ 3.637
Revenues — Health Care Services	\$ 20,494	\$ 18,696	\$ 17,581
Earnings From Operations	\$ 944	\$ 739 -	\$ 578
Operating Margin	4.6%	4.0%	3.3%
Return on Net Assets	29.2 %	24.6%	20.6%

Through eight, high-performing business platforms. Specialized Care Services offers a comprehensive array of benefits, services and resources that help customers access complex and specialized care and fulfill personal needs.

- > United Behavioral Health provides employee assistance, mental health/substance abuse and work/family services for 22 million individuals. United Behavioral Health is the national leader in these services.
- > Optum' offers personalized delivery of health and well-being information, resources and services through the Internet, telephone, print, c-mail, fax, audiotape and personal support. Optum services are available to approximately 19 million individuals throughout the United States.
- > United Resource Networks provides more than 2.000 health plans, insurers, employers and other payers which in turn deliver benefits to more than 40 million individuals with access to the nation's leading specialized networks. United Resource Networks provides access to clinical centers of excellence for organ transplants, cancer resource services and congenital heart disease services.
- > Dental Benefit Providers is one of the nation's largest network-based dental services companies, offering access to affordable dental care to approximately 3 million individuals.
- > Spectera is a leading provider of vision care benefits for more than 6 million individuals throughout the United States.
- > National Benefit Resources offers network-based benefit products and services for self-insured employers through independent third-party administrators
- ACN Group provides network-based chiropractic, physical therapy and other complementary health care services. ACN Group currently serves more than 6 million individuals in 20 markets.
- > Life and Accident Benefits provided through Specialized Care Services give small and medium-sized employer groups a convenient and simple way to deliver a total benefits package to their employees.

#### FINANCIAL PERFORMANCE

(in millions)	-,		2001	2000	• ,	1999
Revenues		\$ -	1,254	i\$ • 974 ···	\$	726`
Earnings From Operations		. \$	214	\$ 1-74	\$ -	-128
Operating Margin			17.1%	17.9%		17.6%
Return on Net Assets	-		59.1%	68.8 %	- 3 -	80.0%

## FINANCIAL REVIEW

Focused business execution and sustained business management disciplines promote

## MORE PRODUCTIVE

products and services and help drive superior performance.

#### 2001 FINANCIAL PERFORMANCE HIGHLIGHTS

2001 was a very strong year for UnitedHealth Group, as the company continued to advance diversified business growth and productivity improvements. Financial performance highlights include:

- Record revenues of \$23.5 billion, an 11% increase over 2000.
- > Record operating earnings of \$1.6 billion, up 31% over 2000, with each business segment delivering strong advances in year-over-year revenue and operating earnings.
- Record net earnings of \$913 million and diluted net earnings per common share of \$2.79, representing increases over 2000 of 30% and 33%, respectively.
- > Record operating cash flows of more than \$1.8 billion, an increase of 21% over 2000.
- Consolidated operating margin of 6.7%, up from 5.7% in 2000 driven by productivity gains, effective care facilitation efforts, and favorable mix shift from risk-based products to higher-margin, fee-based products.
- > Return on shareholders' equity of 24.5%, up from 19.0% in 2000.

Following is a five-year summary of selected financial data:

	For the Year Ended December 31,					
Immulions except per share data)	2001	2000	1999	1998	:997	
CONSOLIDATED OPERATING RESULTS	i :					
Revenues	\$ 23,454	\$ 21,122	\$ 19.562	\$ 17.355	\$ 11,794	
Earnings (Loss) From Operations	\$ 1,566	\$ 1,200	\$ 943	S (42)	\$ 742	
Net Famings (Loss)	\$ 913	s 736	\$ 568°	S (166)	\$ 460	
Net Earnings (Loss) Applicable					Ì	
to Common Shareholders	\$ 913	\$ 736	\$ 568	\$ (214)	\$ 431	
Basic Net Earnings (Loss)	:					
per Common Share	\$ 2.92	\$ 2.27	\$ 1.63	\$ (0.56)	\$ 1.15	
Diluted Net Earnings (Loss)	:					
per Common Share	\$ 2.79	\$ 2.19	\$ 1.601	<b>s</b> (0.56)*	\$ 1.13	
Common Stock Dividends per Share	\$ 0.03	S 0.02	s 0.02	\$ 0.02	\$ 0.02	
CONSOLIDATED CASH FLOWS					;	
FROM OPERATING ACTIVITIES	\$ 1,844	\$ 1,521	\$ 1,189	\$ 1,071	\$ 683	
CONSOLIDATED FINANCIAL CONDITION (As of December 31)					;	
Cash and Investments	\$ 5,698	\$ 5,053	\$ 4,719	\$ 4,424	\$ 4,041	
Total Assers	\$ 12,486	\$ 11,053	\$ 10,273	\$ 9,675	\$ 7,623	
Debt	\$ 1,584	\$ 1,209	\$ 991	\$ 708	\$ -	
Convertible Preferred Stock	\$ -	S -	\$ -	\$ - '	\$ 500	
Shareholders' Equity	\$ 3,891	\$ 3,688	\$ 3.863	\$ 4.038	<b>s</b> 4,534	
Return on Shareholders' Equity	24.5%	19.0%	14.1 %	na <sup>z</sup>	10.4 %	

Results of Operations should be read together with the accompanying Consolidated Financial Statements and Notes.

<sup>&</sup>lt;sup>1</sup> Where applicable, 2000 results exclude the effects of separate dispositions of United fealth Capital investments, bitther described in footnote 1 at the borrow of this page.

<sup>1 2000</sup> results include a \$14 million net permanent tay benefit related to the contribution of UnitedFleath Capital investments to the UnitedHealth Foundation and a \$27 million gain (\$17 million after tax) related to a separate disposition of UnitedHealth Capital investments. Excluding these items, Net Earnings and Diluted Net Earnings per Common Share were \$705 million and \$2.10 per share for the year ended December 31, 2000.

<sup>&</sup>lt;sup>2</sup> 1999 results include a net permanent tax benefit primarily related to the contribution of UnitedHealth Capital investments to the UnitedHealth Foundation. Excluding this benefit, Net Earnings and Diluted Net Earnings per Common Share were \$563 million and \$1.59 per share.

<sup>&</sup>lt;sup>3</sup> Excluding the operational realignment and other charges of \$725 million, \$175 million of charges related to contract losses associated with certain Medicare markets and other increases to commercial and Medicare medical costs payable estimates, and the solution convertible preferred stock redemption premium from 1998 results, Earnings From Operations and Net Earnings Applicable to Common Shareholders would have been \$858 million and \$509 million, or \$1.31 Diluted Net Earnings per Common Share, and Return on Shareholders' Equity would have been \$1.9%.

<sup>&</sup>lt;sup>4</sup> During 1998, we issued debt totaling \$708 million and redeemed \$500 million of convertible preferred stock, na — not applicable.

#### 2001 RESULTS COMPARED TO 2000 RESULTS

#### CONSOLIDATED FINANCIAL RESULTS

#### Revenue

Revenues include premium revenue from risk-based (insured) products, fees from management, administrative and consulting services, and investment and other income.

Consolidated revenues increased in 2001 to \$23.5 billion. Strong and balanced growth across all business segments was partially offset by the impact of planned exits in 2000 from UnitedHealthcare's commercial businesses in the Pacific Coast region, the withdrawal of its Medicare—Choice product offering from targeted counties and the closure of Uniprise's Medicare fiscal intermediary operations. Adjusted for the effects of these business and market exits and excluding revenues from acquired businesses, consolidated revenues increased approximately \$3.0 billion, or 15%, over 2000. Following is a discussion of 2001 consolidated revenue trends for each revenue component

**Premium Revenues** Consolidated premium revenues in 2001 totaled \$20.7 billion, an increase of \$1.8 billion, or 9%, compared with 2000. Adjusted for the effect of business and market exits and excluding revenues from acquired businesses, premium revenues increased 13% over 2000. This increase was primarily driven by average net premium yield increases in excess of 13% on UnitedHealthcare's renewing commercial insured business.

Fee Revenues Fee revenues in 2001 totaled \$2.5 billion, an increase of \$526 million, or 27%, over 2000. The overall increase in fee revenues is primarily the result of record growth of 20% in Uniprise's multi-site, large-employer customer base, growth in United Fleathcare's fee-based business, and Ovations' Pharmacy Services business that began operations in June 2001.

Investment and Other Income Investment and other income in 2001 totaled \$281 million, an increase of \$49 million over 2000. Lower interest yields on investments in 2001 compared with 2000 were largely offset by increased levels of cash and fixed-income investments in 2001. Net realized capital gains in 2001 were \$11 million, compared to net realized capital losses of \$34 million in 2000.

#### Medical Costs

The combination of pricing, benefit designs and comprehensive care facilitation efforts is reflected in the medical care ratio (medical costs as a percentage of premium revenues).

The consolidated medical care ratio decreased from 85.4% in 2000 to 85.3% in 2001. Excluding AARP business, the medical care ratio was 83.9% in both 2000 and 2001, as net premium yield increases were generally well matched with increases in medical benefit costs.

On an absolute dollar basis, medical costs increased \$1.5 billion, or 9%, over 2000. The increase was driven by medical cost inflation, increased consumption patterns, benefit changes and product mix changes.

### Operating Costs

Operating costs as a percentage of total revenues (the operating cost ratio) was 17.0% in 2001, compared with 16.7% in 2000. Changes in productivity and revenue mix affect the operating cost ratio. For our fastest-growing businesses (Uniprise, Specialized Care Services, Ingenix and Ovations Pharmacy Services), most direct costs of revenue are included in operating costs, not medical costs. Using a revenue mix comparable to 2000, the 2001 operating cost ratio would have decreased 70 basis points to 16.0%. This decrease was principally driven by productivity gains from process improvements, technology deployment and cost management initiatives, primarily in the areas of claim processing and customer billings and enrollment. Additionally, because our infrastructure can be scaled efficiently, we have been able to grow revenues at a proportionately higher rate than associated expenses.

On an absolute dollar basis, operating costs increased by \$459 million, or 13%, over 2000. This increase reflects additional costs to support product and technology development initiatives and the 11% increase in consolidated revenues in 2001, partially offset by productivity and technology improvements discussed above.

#### Depreciation and Amortization

Depreciation and amortization was \$265 million in 2001 and \$247 million in 2000. This increase resulted primarily from higher levels of capital expenditures to support business growth and technology enhancements, as well as the amortization of goodwill and other intangible assets related to acquisitions.

#### Income Taxes

The 2000 income tax provision includes nonrecurring tax benefits primarily related to the contribution of UnitedHealth Capital investments to the UnitedHealth Foundation. Excluding nonrecurring tax benefits, our effective income tax rate was 38.0% in 2001 and 37.5% in 2000.

#### BUSINESS SEGMENTS

The following summarizes the operating results of our business segments for the years ended December 31 (in millions):

REVENUES			Percent
	2001	2000	Change
Health Care Services	\$20,494	\$ 18.696	10%
Uniprise	2,462	2,140	15%
Specialized Care Services	1,254	974	29%
Ingenix	447	375	19%
Corporate and Eliminations	(1,203)	(1.063)	nm
_ Consolidated Revenues	\$23,454	\$ 21,122	11%
EARNINGS FROM OPERATIONS	2001	2600	Percent Change
Health Care Services	\$ 944	\$ 739	28%
Uniprise	374	289	29%
Specialized Care Services	214	174	23%
Ingenix	48	32	50%
Total Operating Segments	1,580	1,234	28%
Сотрогате	(14)	(34)	nm
Consolidated Earnings from Operations	\$ 1,566	\$ 1,200	31%
nm — not meaningful			

#### Health Care Services

The Health Care Services segment consists of the UnitedHealthcare and Ovations businesses. UnitedHealthcare provides health and well-being services on behalf of local employers and consumers nationwide. Ovations offers health and well-being services for Americans age 50 and older.

The Health Care Services segment posted record revenues of \$20.5 billion in 2001, an increase of \$1.8 billion, or 10%, over 2000. This increase resulted from average net premium yield increases in excess of 13% on UnitedHealthcare's renewing commercial insured business, partially offset by the impact of UnitedHealthcare's targeted exits in 2000 from its commercial businesses in the Pacific Coast region and the withdrawal of its Medicare+Choice product offering from certain counties. Adjusted for the effects of these actions and excluding revenues from acquired businesses, Health Care Services' revenues increased by 13% on a year-over-year basis.

The Health Care Services segment had earnings from operations of \$944 million in 2001, an increase of \$205 million, or 28%, over 2000. This increase resulted from revenue growth and stable gross margins on UnitedHealthcare's commercial business and improved operating cost efficiencies from process improvement, technology deployment and cost management initiatives. Health Care Services' operating margin increased to 4.6% in 2001 from 4.0% in 2000, driven by the productivity improvements described above and a positive shift in product mix from risk-based products to higher-margin, fee-based products.

UnitedHealthcare's commercial medical care ratio remained flat compared with 2000 at 84.1%, as not premium yield increases were generally well matched with increases in overall medical benefit costs. UnitedHealthcare sets commercial health plan premium rates based on anticipated benefit costs, including the effects of medical cost inflation, consumption patterns, benefit changes, product mix and market conditions.

UnitedHealthcare's commercial individuals served increased by 135,000, or 2%, from December 31, 2000 to December 31, 2001, consisting of an increase of 380,000 in the number of individuals served with fee-based products, partially offset by a 245,000 decrease in individuals served by risk-based products. The decrease in individuals served by risk-based products was driven by a combination of customers converting to self-funded, fee-based arrangements and UnitedHealthcare's targeted withdrawal of its risk-based product offerings from unprofitable arrangements with customers using multiple health benefit carriers. The increase in fee-based customers was driven by customers converting from risk-based products and new customer relationships established in 2001.

UnitedHealthcare's year-over-year Medicare enrollment decreased 15% because of actions taken to better position this program for long-term success. Effective January 1, 2001, UnitedHealthcare withdrew its Medicare+Choice product from targeted counties affecting 56,000 individuals. Annual revenues in 2000 from the Medicare markets exited as of January 1, 2001, were approximately \$320 million.

Effective January 1, 2002, UnitedHealthcare withdrew its Medicare+Choice product from targeted counties affecting 57,000 individuals. Annual revenues in 2001 from the Medicare markets exited as of January 1, 2002, were approximately \$370 million. These withdrawals are primarily in response to insufficient Medicare program reimbursement rates in specific counties. These actions will further reduce Medicare enrollment, but will preserve profit margins in the long term. UnitedHealthcare will continue to evaluate Medicare markets and, where necessary, take actions that may result in further withdrawals of Medicare product offerings or reductions in membership, when and as permitted by its contracts with the Centers for Medicare and Medicaid Services (CMS), formerly known as the Health Care Financing Administration.

The following table summarizes individuals served by UnitedHealthcare, by major market segment and funding arrangement, as of December 31 (in thousands).

	2001	2000 _
Commercial		
Insured (risk-based)	5,250	5,495
Fee-based	2,305	1.925
Total Commercial	7,555	7,420
Modicare	345	405
Medicaid	640	550
Total United Healthcare	8,540	8.375

#### Uniprise

Umprise provides health and well-being services, business-to-business transaction processing services, consumer connectivity and technology support for large employers and health plans. Umprise revenues were \$2.5 billion in 2001, up \$322 million, or 15%, over 2000. This increase was driven primarily by continued growth in Uniprise's large multi-site customer base, which had a 20% increase in the number of individuals served. Uniprise served 8.0 million individuals as of December 31, 2001, and 6.7 million individuals as of December 31, 2000. Uniprise's earnings from operations grew by \$85 million, or 29%, over 2000 as a result of the increased revenues. The operating margin improved to 15.2% in 2001 from 13.5% in 2000. As revenues have increased. Uniprise has expanded its operating margin by improving productivity through process improvement initiatives and deployment of technology. Additionally, Umprise's infrastructure can be scaled efficiently, allowing their business to grow revenues at a proportionately higher rate than associated expenses.

#### Specialized Care Services

Specialized Care Services is an expanding portfolio of health and well-being companies, each serving a specialized market need with a unique blend of benefits, networks, services and resources. Specialized Care Services had revenues of \$1.3 billion in 2001, an increase of \$280 million, or 29%, over 2000. This increase was driven primarily by an increase in the number of individuals served by United Behavioral Health, its mental health benefit business, and an increase in specialized services purchased by customers serviced by Uniprise and United Health care. Earnings from operations reached \$214 million in 2001, an increase of 23% over 2000. Specialized Care Services' operating margin decreased from 17.9% in 2000 to 17.1% in 2001. The decrease in operating margin is the result of a shifting product mix, with a larger percentage of revenues coming from businesses with higher revenues per individual served and lower percentage operating margins.

#### Ingenix

Ingenix is a leader in the field of health care data analysis and application, serving pharmaceutical companies, health insurers and payers, health care providers. large employers and governments. Revenues were \$447 million in 2001, an increase of \$72 million, or 19%, over 2000. This increase reflects growth in both the health information and pharmaceutical services businesses. Earnings from operations were \$48 million, up 50% over 2000. Operating margin increased to 10.7% in 2001 from 8.5% in 2000, principally as a result of revenue growth and improved productivity.

#### Corporate

Corporate includes investment income derived from cash and investments not assigned to operating segments, companywide costs for certain core process improvement initiatives, net expenses from charitable contributions to the UnitedHealth Foundation and eliminations of intersegment transactions. The decrease of \$20 million in 2001 corporate expenses reflects lower companywide process improvement expenses in 2001 compared to 2000, as certain process improvement initiatives were completed in 2001.

#### 2000 RESULTS COMPARED TO 1999 RESULTS

#### CONSOLIDATED FINANCIAL RESULTS

#### Revenues

Consolidated revenues increased in 2000 to \$21.1 billion. Balanced growth across all business segments was partially offset by targeted pullbacks and exits from certain geographic and Medicare markets. Adjusted for the effects of these market transitions, consolidated revenues increased approximately \$2.2 billion, or 12%, over 1999. Following is a discussion of 2000 consolidated revenue trends for each revenue component.

Premium Revenues Consolidated premium revenues in 2000 totaled \$18.9 billion, an increase of \$1.4 billion, or 8%, compared with 1999. This increase was driven by two primary factors: premium yield increases on UnitedHealthcare's renewing commercial insured business and growth in the number of individuals served. These increases were partially offset by withdrawals from certain geographic and Medicare markets. Adjusted for the effect of these market withdrawals, premium revenues increased 12% over 1999.

Fee Revenues Fee revenues in 2000 totaled \$2.0 billion, an increase of \$171 million, or 10%, over 1999. This increase resulted from record growth in Uniprise's multi-site customer base, growth in UnitedHealthcare's fee-based business, modest price increases, and acquisitions and growth in the Specialized Care Services and Ingenix businesses.

Investment and Other Income Investment and other income in 2000 totaled \$232 million, an increase of \$13 million over 1999. Higher interest yields on investments in 2000 compared with 1999 were largely offset by \$34 million of not realized capital losses in 2000. Net realized capital losses were \$6 million in 1999

#### Medical Costs

The consolidated medical care ratio decreased from 85.7% in 1999 to 85.4% in 2000. Excluding AARP business, on a year-over-year basis, the medical care ratio decreased 30 basis points to 83.9%. Year-over-year medical care ratios decreased because commercial net premium yield increases exceeded the increase in total benefit costs.

On an absolute dollar basis, medical costs increased \$1.1 billion, or 7%, over 1999. The increase was driven by growth in the number of individuals served with insured products, medical cost inflation, increased consumption patterns, benefit changes and product mix changes.

#### Operating Costs

The operating cost ratio was 16.7% in 2000, compared with 17.1% in 1999. Using a revenue mix comparable to 1999, the 2000 operating cost ratio would have decreased 80 basis points to 16.3%. This decrease was primarily driven by productivity gains from process improvements, technology deployment and cost management initiatives, and by further leveraging our fixed costs.

On an absolute dollar basis, operating costs increased by \$177 million, or 5%, over 1999. This increase reflects additional costs to support product and technology development initiatives and the 8% increase in consolidated revenues in 2000, partially offset by productivity and technology improvements discussed above.

#### Depreciation and Amortization

Depreciation and amortization was \$247 million in 2000 and \$233 million in 1999. This increase resulted primarily from higher levels of capital expenditures to support business growth and technology enhancements, as well as amortization of goodwill and other intangible assets related to acquisitions.

#### Income Taxes

The 2000 income tax provision includes nonrecurring tax benefits primarily related to the contribution of UnitedHealth Capital investments to the UnitedHealth Foundation. Excluding nonrecurring tax benefits, our effective income tax rate was 37.5% in 2000 and 37.0% in 1999.

### BUSINESS SEGMENTS

The following summarizes the operating results of our business segments for the years ended December 31 (in millions):

REVENUES	2000	*\$9 <u>5</u>	Percer 1 Change
Health Care Services	\$ 18,696	S 17,581	6°;∈
Uniprise	2,140	1,865	15%
Specialized Care Services	974	726	34%
Ingenix	375	258	45%
Corporate and Eliminations	(1,063)	(868)	nm
Consolidated Revenues	\$ 21.122	\$ 19.562	8%
EARNINGS FROM OPERATIONS	2000	1999	Percent Change
Health Care Services	\$ 739	\$ 578	28%
Uniprise	289	222	30%
Specialized Care Services	174	128	36%
Ingenix.	32	25	28%
Total Operating Segments	1,234	 953	29%
Corporate	(34)	(10)	מונג
Consolidated Earnings from Operations	\$ 1,200	s 943	27%

nn: - not meaningful

## Health Care Services

The Health Care Services segment posted revenues of \$18.7 billion in 2000, an increase of \$1.1 billion, or 6%, over 1999. This increase was primarily due to premium yield increases on UnitedHealthcare's renewing commercial insured business and growth of approximately 7% in the number of individuals served in continuing markets, partially offset by targeted pullbacks in certain geographic and Medicare markets. Adjusted for the effects of these market changes, Health Care Services' revenues increased by 10% on a year-over-year basis.

The Health Care Services segment contributed earnings from operations of \$739 million in 2000, an increase of \$161 million, or 28%, over 1999. This increase was primarily the result of improved margins on UnitedHealthcare's commercial business and lower operating costs as a percentage of revenues, driven by process improvement, technology deployment and cost management initiatives. Health Care Services' operating margin increased to 4.0% in 2000 from 3.3% in 1999.

UnitedHealthcare's commercial medical care ratio improved to 84.1% in 2000 from 84.6% in 1999, as net premium yield increases exceeded increases in medical costs.

The following table summarizes individuals served by UnitedHealthcare, by major market segment and funding arrangement, as of December 31 (in thousands):

	 2000	_ 629 <sup>-</sup>
Commercial		:
Insured (risk-based)	5.495	5,150
Fee-based	1.925	1.745
Total Commercial	 7.420	6.895
Medicare	405	435
Medicaid	550	480
Total UnitedHealthcare	8,375	7,810

I Excludes individuals served through United Healthcare platforms located in Puerto Rico and Pacific Coast regions. As of December 31, 2000, United Healthcare had substantially transitioned from these markets. Including these markets, committed individuals served at December 31, 1999, were 5,650 for insisted products and 1,885 for fee-based products.

#### Uniorise

Uniprise had revenues of \$2.1 billion in 2000, an increase of \$275 million, or 15%, over 1999. This increase was driven primarily by continued growth in Uniprise's large multi-site customer base, which had an 11% increase in individuals served, as well as changes in funding arrangements selected by certain customers and price increases on fee-based business. Uniprise served 6.7 million and 6.0 million individuals as of December 31, 2000 and 1999, respectively. Uniprise's earnings from operations grew by \$67 million. or 30%, over 1999 as a result of increased revenues. Operating margin improved to 13.5% in 2000 from 11.9% in 1999. Uniprise has expanded its operating margin by improving productivity through process improvement initiatives, increased deployment of technology and further leveraging of fixed costs.

#### Specialized Care Services

Specialized Care Services' revenues were \$974 million in 2000, an increase of \$248 million, or 34%, over 1999. This increase was driven primarily by an increase in the number of individuals served by United Behavioral Health, and the acquisitions of Dental Benefit Providers, Inc. in June 1999 and National Benefit Resources. Inc. in November 1999. Earnings from operations of \$174 million increased by 36% compared with 1999. in line with 2000 revenue growth. Specialized Care Services' operating margin improved from 17.6% in 1999 to 17.9% in 2000.

#### Ingenix

Ingenix had revenues of \$375 million in 2000, an increase of \$117 million, or 45%, over 1999. This increase was driven by organic growth of \$54 million and acquisitions made in 1999 that expanded the company's clinical research and development, clinical marketing and health information services. Earnings from operations of \$32 million increased 28% over 1999. Operating margin decreased to 8.5% in 2000 from 9.7% in 1999, principally as a result of increased goodwill amortization expense associated with acquisitions.

#### Corporate

The decrease of \$24 million in 2000 earnings reflects a decline in the level of unassigned cash and investments and associated investment income. primarily due to share repurchases and incremental process improvement costs in 2000.

## OPERATIONAL REALIGNMENT AND OTHER CHARGES

In conjunction with a comprehensive operational realignment initiated in 1998, we developed and approved an implementation plan (rice Plan). We recognized corresponding charges to operations of \$725 million in the second quarter of 1998, which reflected the estimated costs to be incurred under the Plan. The charges included costs associated with asset impairments: employee terminations; disposing of or discontinuing business units, product lines and contracts; and consolidating and eliminating certain claim processing and customer service operations and associated real estate obligations.

We completed our operational realignment plan in 2001. Actual costs incurred executing the Plan exceeded estimates by approximately \$4 million, which has been included in 2001 operating costs in the Consolidated Statements of Operations, These excess costs were incurred in the fourth quarter of 2001. Activities associated with the Plan resulted in the reduction of approximately 5.100 positions, affecting approximately 5.800 people.

As of December 31, 2000, we had completed all planned business dispositions and market exits pursuant to the Plan. Accordingly, our 2001 financial statements do not include the operating results of exited businesses or markets. Our Consolidated Statements of Operations include results for businesses disposed of and markets exited in connection with our operational realignment as follows: \$312 million in revenues and \$9 million in earnings from operations in 2000, and \$689 million in revenues and \$41 million of losses from operations in 1999. These amounts do not include operating results from the counties where UnitedHealthcare withdrew its Medicare product offerings effective January 1, 2001, and January 1, 2000. Annual revenues for 2000 from the counties exited effective January 1, 2001, were approximately \$320 million. Annual revenues for 1999 from the counties exited effective January 1, 2000, were approximately \$230 million.

The operational realignment and other charges did not cover certain aspects of the Plan, including new information systems, data conversions, process re-engineering, temporary duplicate staffing costs as we consolidated processing and service centers, and employee relocation and training. These costs were expensed as incurred or capitalized, as appropriate. During 2001, 2000 and 1999, we incurred expenses of approximately \$20 million, \$57 million and \$52 million, respectively, related to these activities.

## FINANCIAL CONDITION AND LIQUIDITY AT DECEMBER 31, 2001

#### LIQUIDITY

We manage our cash, investments and capital structure so we are able to meet the short- and long-term obligations of our business while maintaining financial flexibility and liquidity. We forecast, analyze and monitor our cash flows to enable prudent investment and financing within the overall constraints of our financial strategy, such as our self-imposed limit of 30% on our debt-to-total-capital ratio (calculated as the sum of commercial paper, debt and shareholders' equity).

Much of the assets held by our regulated subsidiaries are in the form of cash, cash equivalents and investments. After considering expected cash flows from operating activities, we generally invest monies of regulated subsidiaries that exceed our near-term obligations in longer term marketable debt securities, to improve our overall income return. Factors we consider in making these investment decisions include our board of directors' approved policy, regulatory limitations, return objectives, tax implications, risk tolerance and maturity dates. Even our long-term investments are available for sale to meet liquidity and other needs. Monies in excess of the capital needs of our regulated entities are paid to their non-regulated parent companies, typically in the form of dividends, for general corporate use, when and as permitted by applicable regulations.

Our non-regulated businesses also generate cash from operations. Additionally, we issue long-term debt and commercial paper with staggered maturity dates and have available credit facilities. These additional sources of liquidity allow us to maintain further operating and financial flexibility. Because of this flexibility, we typically maintain low cash and investment balances in our non-regulated companies. Cash in these entities is generally used to reinvest in our businesses in the form of capital expenditures, to expand the depth and breadth of our services through business acquisitions, and to repurchase shares of our common stock.

Cash generated from operating activities, our primary source of liquidity, is principally attributable to net earnings, excluding depreciation and amortization. As such, any future decline in our profitability would likely have a negative impact on our liquidity. The availability of financing, in the form of debt or equity, is influenced by many factors including our profitability, operating cash flows, debt levels, debt ratings, contractual restrictions, regulatory requirements and market conditions. We believe that our strategies and actions toward maintaining financial flexibility mitigate much of this risk.

#### CASH AND INVESTMENTS

During 2001, we generated cash from operations of more than \$1.8 billion, an increase of \$323 million, or 21%, over 2000. The increase in operating cash flows primarily resulted from an increase of \$195 million in net income excluding depreciation and amortization expense and working capital improvements of approximately \$111 million.

We maintained a strong financial condition and liquidity position, with cash and investments of \$5.7 billion at December 31, 2001. Total cash and investments increased by \$645 million since December 31, 2000, primarily resulting from strong cash flows from operations partially offset by common stock repurchases.

As further described under "Regulatory Capital and Dividend Restrictions," many of our subsidiaries are subject to various government regulations that restrict the timing and amount of dividends and other distributions that may be paid to their parent companies. At December 31, 2001, approximately \$660 million of our \$5.7 billion of cash and investments was held by non-regulated subsidiaries. Of this amount, approximately \$260 million was segregated for future regulatory capital needs and \$230 million was available for general corporate use, including acquisitions and share repurchases. The remaining \$170 million consists primarily of public and non-public equity securities held by UnitedHealth Capital, our investment capital business.

#### FINANCING AND INVESTING ACTIVITIES

We use commercial paper and debt to maintain adequate operating and financial flexibility. As of December 31, 2001 and 2000, we had commercial paper and debt outstanding of \$1.6 billion and \$1.2 billion, respectively. Proceeds from the net increase of \$375 million in total commercial paper and debt will be used for general corporate purposes, which may include working capital, business acquisitions, capital expenditures and share repurchases.

Our debt-to-total-capital ratio was 28.9% and 24.7% as of December 31, 2001 and 2000, respectively. We expect to maintain our debt-to-total-capital ratio between 25% and 30%. Within this range, we believe our cost of capital and return on shareholders' equity are optimized, while maintaining a prudent level of leverage and liquidity.

Commercial paper outstanding at December 31, 2001, totaled \$684 million, with interest rates ranging from 1.9% to 2.7%. In November 2001, we issued \$100 million of floating-rate notes due November 2003 and \$150 million of floating-rate notes due November 2004. The interest rates on the notes are reset quarterly to

the three-month LIBOR (London Interbank Offered Rate) plus 0.3% for the notes due November 2003 and to the three-month LIBOR plus 0.6% for the notes due November 2004. As of December 31, 2001, the applicable rates on the notes were 2.4% and 2.7%, respectively. A portion of the proceeds from these borrowings was used to repay \$150 million of floating-rate notes that matured in November 2001.

In January 2002, we issued \$400 million of 5.2% fixed-rate notes due January 2007. Proceeds from this borrowing will be used to repay commercial paper and for general corporate purposes, including working capital capital expenditures, business acquisitions and share repurchases. When we issued these notes, we entered into interest rate swap agreements to convert a portion of our interest rate exposure from a fixed rate to a variable rate. The interest rate swap agreements have an aggregate notional amount of \$200 million maturing January 2007. The variable rates approximate the six-month LIBOR and are reset on a semiannual basis.

We have credit arrangements for \$900 million that support our commercial paper program. These credit arrangements include a \$450 million revolving facility that expires in July 2005, and a \$450 million, 364-day facility that expires in July 2002. We also have the capacity to issue approximately \$200 million of extendible commercial notes (ECNs). As of December 31, 2001 and 2000, we had no amounts outstanding under our credit facilities or ECNs.

Our debt arrangements and credit facilities contain various covenants, the most restrictive of which require us to maintain a debt-to-total-capital ratio below 45% and to exceed specified minimum interest coverage levels. We are in compliance with the requirements of all debt covenants.

Our senior debt is rated "A" by Standard & Poor's (S&P) and Fitch, and "A3" by Moody's. Our commercial paper and ECN programs are rated "A-1" by S&P, "F-1" by Fitch, and "P-2" by Moody's. Consistent with our intention of maintaining our senior debt ratings in the "A" range, we intend to maintain our debt-to-total-capital ratio at 30% or less. A significant downgrade in our debt and commercial paper ratings could adversely affect our borrowing capacity and costs.

The remaining issuing capacity of all securities covered by our shelf registration statement for common stock, preferred stock, debt securities and other securities is \$450 million, after giving effect to the \$400 million fixed-rate notes issued in January 2002. We may publicly offer such securities from time to time at prices and terms to be determined at the time of offering

Under our board of directors' authorization, we maintain a common stock repurchase program. Repurchases may be made from time to time at prevailing prices, subject to certain restrictions on volume, pricing and timing. During 2001, we repurchased 19.6 million shares at an aggregate cost of approximately \$1.1 billion. Through December 31, 2001, we had repurchased approximately 112.5 million shares for an aggregate cost of \$3.7 billion since the program began in November 1997. As of December 31, 2001, we had board of directors' authorization to purchase up to an additional 8.8 million shares of our common stock. In February 2002, the board of directors authorized us to repurchase up to an additional 30 million shares of common stock under the program.

As part of our share repurchase activities, we have entered into agreements with an independent third party to purchase shares of our common stock, where the number of shares we purchase, if any, depends upon market conditions and other contractual terms. As of December 31, 2001, we had conditional agreements to purchase up to 6.1 million shares of our common stock at various times and prices through 2003, at an average price of approximately \$58 per share.

During 2001 and 2000, we invested \$425 million and \$245 million, respectively, in property, equipment and capitalized software. These investments were made to support business growth, operational efficiency, service improvements and technology enhancements.

#### CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

We have various contractual obligations and commercial commitments to make future payments including debt agreements, lease obligations, stock repurchase contracts and data center service agreements. The following table summarizes our future obligations under these contracts due by period as of December 31, 2001 (in millions):

Beceimser ot, 2007 (III IIIII only).	2002	2003 to 2004	2005 to 2006	Theresia	Total
Debt and Commercial Paper	\$ 684	\$ 500	\$ 400	S -	\$1,584
Operating Leases	99	167	128	224	618
Data Center Service Agreements	206	443	263	-	912
Stock Repurchase Contracts	217	138	-		355
Total Contractual Obligations	\$1,206	\$1,248	S 791	\$ 224	\$3,469

<sup>1</sup> Dobt payments could be accelerated upon violation of debt covenants. We believe the likelihood of a debt covenant violation is remote

Currently, we do not have any other material definitive commitments that require cash resources; however, we continually evaluate opportunities to expand our operations. This includes internal development of new products and programs and may include acquisitions.

#### AARP

In January 1998, we began providing services under a 10-year contract to provide insurance products and services to members of AARP. Under the terms of the contract, we are compensated for claim administration and other services as well as for assuming underwriting risk. We are also engaged in product development activities to complement the insurance offerings under this program. Premium revenues from our portion of the AARP insurance offerings were approximately \$3.5 billion during 2001, 2000 and 1999.

The underwriting gains or losses related to the AARP business are recorded as an increase or decrease to a rate stabilization fund (RSF), which is reported in Other Policy Liabilities in the accompanying Consolidated Balance Sheets. The company is at risk for underwriting losses to the extent cumulative ner losses exceed the balance in the RSF. We may recover RSF deficits, if any, from gains in future contract periods. We believe the RSF balance is sufficient to cover potential future underwriting or other risks associated with the contract.

The effects of changes in balance sheet amounts associated with the AARP program accrue to AARP policyholders through the RSF balance. Accordingly, we do not include the effect of such changes in our Consolidated Statements of Cash Flows.

<sup>&</sup>lt;sup>2</sup> Reflects maximum potential purchases under stock repurchase contracts. In the event of certain termination events, including a default on our debt or credit agreements or a downgrade of our debt ratings below investment grade, we could be required to inimediately settle our remaining obligations under the contracts. We may elect to settle the contracts by issuing common stock in lieu of cash. We believe the likelihood of a debt covenant violation or a downgrade of our debt rating below investment grade is concret.

## REGULATORY CAPITAL AND DIVIDEND RESTRICTIONS

We conduct our operations through our wholly-owned subsidiaries. These companies are subject to standards established by the National Association of Insurance Commissioners (NAIC) that, among other things, require them to maintain specified levels of statutory capital, as defined by each state, and restrict the timing and amount of dividends and other distributions that may be paid to their parent companies. Generally, the amount of dividend distributions that may be paid by a regulated subsidiary, without prior approval by state regulatory authorities, is limited based on the entity's level of statutory net income and statutory capital and surplus. The agencies that assess our credimorthiness also consider capital adequacy levels when establishing our debt ratings. Consistent with our intention of maintaining our senior debt ratings in the "A" range, we maintain an aggregate statutory capital and surplus level for our regulated subsidiaries that is significantly higher than the level regulators require. As of December 31, 2001, our regulated subsidiaries had aggregate statutory capital and surplus of approximately \$2.0 billion, more than \$1.1 billion above the \$850 million of required aggregate capital and surplus.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting policies are those policies that require the application of management's most challenging, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgments and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions. We believe that our most critical accounting policies are those described below. For a detailed discussion of these and other accounting policies, see Note 2 to the Consolidated Financial Statements.

#### MEDICAL COSTS

A substantial portion of our medical costs payable balance is based on estimates. This balance includes estimates for the costs of health care services people have received, but for which claims have not yet been submitted, and estimates for the costs of claims we have received but have not yet processed. We develop medical costs payable estimates using actuarial methods based upon historical claim submission and payment data, cost trends, customer and product mix, seasonality, utilization of health care services, contracted service rates and other relevant factors. The estimates may change as actuarial methods change or as underlying facts upon which estimates are based change. We did not change actuarial methods during 2001, 2000 and 1999.

Management believes the amount of medical costs payable is adequate to cover the company's liability for unpaid claims as of December 31, 2001; however, actual claim payments may differ from established estimates. Assuming a hypothetical 1% difference between our December 31, 2001 estimates of medical costs payable and actual costs payable, 2001 earnings from operations would increase or decrease by approximately \$20 million and basic and diluted net earnings per common share would increase or decrease by approximately \$0.04 per share. Adjustments to medical costs payable estimates are reflected in operating results in the period in which the change in estimate is identified.

#### REVENUES

Our revenue is principally derived from health care insurance premiums. Premium revenues are recognized in the period enrolled members are entitled to receive health care services. Customers are typically billed monthly at a contracted rate per enrolled member multiplied by the number of members eligible to receive services, as recorded in our records. Because employer groups generally provide us with changes to their eligible member population one month in arrears, each billing includes an adjustment for prior month changes in member status that were not reflected in our billing. We estimate the amount of future adjustments and adjust the current period's revenues and accounts receivable accordingly. Our estimates are based on historical trends, premiums billed, the level of contract renewal activity and other relevant information. We also estimate the amount of uncollectible receivables each period and record-valuation allowances based on historical collection rates, the age of unpaid amounts, and information about the creditworthiness of the customers. Estimates of revenue adjustments and uncollectible accounts receivable are revised each period, and changes are recorded in the period they become known.

#### INVESTMENTS

As of December 31, 2001, we had approximately \$4.2 billion of investments, primarily held in marketable debt securities. Our investments are principally classified as available for sale and are recorded at their fair values as of the date reported. Unrealized investment gains and losses are excluded from earnings and reported as a separate component in shareholders' equity. We continually monitor the difference between the cost and fair value of our investments. If any of our investments experience a decline in fair value that we believe is other than temporary, we record a realized loss in our Consolidated Statements of Operations. Management judgment is involved in evaluating whether a decline in an investment's fair value is other than temporary. The discovery of new information and the passage of time can change these judgments. Revisions of impairment judgments are made when new information becomes known, and any resulting impairment adjustments are made at that time. We manage our investment portfolio to limit our exposure to any one issuer or industry, and largely limit our investments to U.S. Government and Agency securities, state and municipal securities, and corporate debt obligations that are investment grade.

#### LONG-LIVED ASSETS

As of December 31, 2001 and 2000, we had long-lived assets, including goodwill, other intangible assets, and property, equipment and capitalized software of \$3.7 billion and \$3.2 billion, respectively. We review these assets for events and changes in circumstances that would indicate we might not recover their carrying value. In assessing the recoverability of our long-lived assets, we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for these assets.

#### CONTINGENT LIABILITIES

Because of the nature of our businesses, we are routinely involved in various disputes, legal proceedings and governmental audits and investigations. We record liabilities for our estimate of probable costs resulting from these matters. Our estimates are developed in consultation with outside legal counsel and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies and considering our insurance coverages for such matters. We do not believe any matters currently threatened or pending will have a material adverse effect on our consolidated financial position. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in our assumptions or the effectiveness of our strategies related to these proceedings.

#### INFLATION

The national health care cost inflation rate significantly exceeds the general inflation rate. We use various strategies to lessen the effects of health care cost inflation. This includes setting commercial premiums based on anticipated health care costs and coordinating care with physicians and other health care providers. Through contracts with physicians and other health care providers, our health plans emphasize preventive health care, appropriate use of specialty and hospital services, education and closing gaps in care.

We believe our strategies to mitigate the impact of health care cost inflation on our operating results have been and will continue to be successful. However, other factors including competitive pressures new health care and pharmaceutical product introductions, demands from physicians and other health care providers and consumers, and applicable regulations may affect our ability to control the impact of health care cost inflation. Changes in medical cost trends that were not anticipated in establishing premium rates, because of the narrow operating margins of our insurance products, can create significant changes in our financial results.

#### LEGAL MATTERS

Because of the nature of our businesses, we are routinely party to a variety of legal actions related to the design, management and offerings of our services. These matters include: claims relating to health care benefits coverage: medical malpractice actions: allegations of anti-competitive and unfair business activities; disputes over compensation and termination of contracts including those with physicians and other health care providers: disputes related to our administrative services, including actions alleging claim administration errors and failure to disclose rate discounts and other fee and rebate arrangements: disputes over benefit copayment calculations: claims related to disclosure of certain business practices; and claims relating to customer audits and contract performance.

In 1999, a number of class action lawsuits were filed against us and virtually all major entities in the health benefits business. The suits are purported class actions on behalf of certain customers and physicians for alleged breaches of federal statutes, including the Employee Retirement Income Security Act of 1974, as amended (ERISA), and the Racketeer Influenced Corrupt Organization Act (RICO). Although the results of pending litigation are always uncertain, we do not believe the results of any such actions, including those described above, currently threatened or pending will, individually or in aggregate, have a material adverse effect on our results of operations or financial position.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of changes in value of a financial instrument caused by changes in interest rates and equity prices.

Approximately \$5.5 billion of our cash and investments at December 31, 2001, was invested in fixed income securities. We manage our investment portfolio within risk parameters approved by our board of directors; however, our fixed income securities are subject to the effects of market fluctuations in interest rates. Assuming a hypothetical and immediate 1% increase or decrease in interest rates applicable to our fixed income portfolio at December 31, 2001, the fair value of our fixed income investments would decrease or increase by approximately \$160 million.

At December 31, 2001, we had approximately \$170 million of equity investments in various public and non-public companies concentrated in the areas of health care delivery and related information technologies. Market conditions that affect the value of health care or technology stocks will likewise impact the value of our equity portfolio.

#### CONCENTRATIONS OF CREDIT RISK

Investments in financial instruments such as marketable securities and accounts receivable may subject UnitedHealth Group to concentrations of credit risk. Our investments in marketable securities are managed under an investment policy authorized by our board of directors. This policy limits the amounts that may be invested in any one issuer and generally limits our investments to U.S. Government, Agency and municipal securities and corporate debt obligations that are investment grade. Concentrations of credit risk with respect to accounts receivable are limited to the large number of employer groups that constitute our customer base. As of December 31, 2001, there were no significant concentrations of credit risk.

#### CAUTIONARY STATEMENT REGARDING "FORWARD-LOOKING" STATEMENTS

The statements contained in Results of Operations and other sections of this annual report to shareholders, include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (PSLRA). When used in this report, the words or phrases "believes," "anticipates," "intends," "will likely result." "estimates," "projects" or similar expressions are intended to identify such forward-looking statements. Any of these forward-looking statements involve risks and uncertainties that may cause the company's actual results to differ materially from the results discussed in the forwardlooking statements. Statements that are not strictly historical are "forward-looking" and unknown risks may cause actual results and corporate developments to differ materially from those expected. Except to the extent otherwise required by federal securities laws, in making these statements we are not undertaking to address or update each statement in future filings or communications regarding our business or results, and are not undertaking to address how any of these factors may have caused results to differ from discussions or information contained in previous filings or communications. In addition, any of the marters discussed in this annual report may have affected our past, as well as current, forward-looking statements about future results. Any or all forward-looking statements in this report and in any other public statements we make may turn out to be inaccurate or false. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties.

Many factors discussed below will be important in determining future results. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially from those expressed in our prior communications. Factors that could cause results and developments to differ materially from expectations include, without limitation. (a) increases in medical costs that are higher than we anticipated in establishing our premium rates, including increased use of or costs of medical services; (b) increases in costs associated with increased litigation, legislative activity and government regulation and review of our industry, including costs associated with compliance with proposed legislation related to the Patients' Bill of Rights, e-commerce activities and consumer privacy issues; (c) heightened competition as a result of new entrants into our market, mergers and acquisitions of health care companies and suppliers. and expansion of physician or practice management companies; (d) events that may negatively affect our contract with AARP, including any failure on our part to service AARP customers in an effective manner and any adverse events that directly affect AARP or its business partners; (e) medical cost increases or benefit changes associated with our remaining Medicare-Choice operations: (f) significant deterioration in customer retention; and (g) significant deterioration in economic conditions, including the effects of acts of terrorism, particularly bioterrorism. A further list and description of these risks, uncertainties and other matters can be found in the company's annual report on Form 10-K for the year ended December 31, 2001. and in its periodic reports on Forms 10-Q and 8-K (if any).

## CONSOLIDATED STATEMENTS OF OPERATIONS

		For	the Year	Ended Dene	nber 21	
un millions, carept per share date)		2001		2600		1989
REVENUES	• 2	0.683	¢ ī	18.926	e 1	7,550
Premiums	•		, د	1.964	3 1	1.793
Fees		2,490		232		219
Investment and Other Income	,	281				
Total Revenues	2	3,454	4	21,122		19.562
MEDICAL AND OPERATING COSTS						
Medical Costs	1	7.644		16,155	]	5,043
Operating Costs		3.979		3.520		3,343
Depreciation and Amortization		265		247		233
Total Medical and Operating Costs	2	1,888		19,922	-	18,619
Total medical and Operating Costs		.2,000			•	
EARNINGS FROM OPERATIONS		1,566		1,200		943
Gain on Disposition of UnitedHealth Capital Investments		- 1		27		-
Interest Expense		(94)		(72)		(49)
_ '						
EARNINGS BEFORE INCOME TAXES		1,472		1,155		894
Provision for Income Taxes		(559)		(419)		(326)
		7				
NET_EARNINGS	\$	913	\$	736	\$	568
BASIC NET EARNINGS PER COMMON SHARE	\$	2.92	S	2 27	\$	1 63
						!
DILUTED NET EARNINGS PER COMMON SHARE	\$	2.79	\$	2.19	S	1.60
BASIC WEIGHTED-AVERAGE NUMBER OF COMMON SHARES				0040		240.2
OUTSTANDING		312.4		324.2		348.2
DILUTIVE EFFECT OF OUTSTANDING STOCK OPTIONS		14.4		12.3		6.8
						;
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		200.0		990 5		3550
_ASSUMING DILUTION		326.8		336.5		355.0

See notes to consolidated financial statements

## CONSOLIDATED BALANCE SHEETS

		Ą	s or December	- 01
(in millions, except share and per share data)		2001		2000
		:		
ASSETS		į.		
Current Assots	\$	1,540	S	1.419
Cash and Cash Equivalents	Þ	270	3	200
Short-Term Investments		856 .		867
Accounts Receivable, net of allowances of \$127 and \$118		1,903		1.646
Assets Under Management			· 	235
Deferred Income Taxes		316		38
Other Current Assets		61		
Total Current Assets		4,946		4,405
Long-Term Investments		3,888		3,434
Property, Equipment and Capitalized Software, net of accumulated				
depreciation and amortization of \$670 and \$599		847	•	557
Goodwill and Other Intangible Assets, net of accumulated				
amortization of \$500 and \$415		2,805	:	2.657
TOTAL ASSETS	\$	12,486	: \$	11.053
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				1
Medical Costs Pavable	\$	3,460	S	3 266
Accounts Payable and Accrued Liabilities	•	1,209	•	1.050
Other Policy Liabilities		1,595	!	1.216
Commercial Paper and Current Maturities of Long-Term Debt		684	:	559
Unearned Premiums		543	;	479
Total Current Liabilities		7,491	:	6.570
Long-Term Debt, less current maturities		900	:	650
Deferred Income Taxes and Other Liabilities		204		145
Commitments and Contingencies (Note 11)		201		110
Shareholders' Equity				
Common Stock, \$0.01 par value – 1,500,000.000 shares authorized;		3		3
308,626.000 and 317,235,000 shares outstanding		39	1	,
Additional Paid-In Capital		3,805	•	3.595
Retained Earnings		3,803	:	3,333
Accumulated Other Comprehensive Income:		44		90
Net Unrealized Gains on Investments, net of tax effects			:	3.688
TOTAL SHAREHOLDERS' EQUITY		3,891		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$	12,486	\$	11,053

See notes to consolidated tinancial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

				Agart one		Net upræskizer Calos on	To all	
EquipMons	Commo Smares	on Stuck Ami		Para Fr Captier	Reisined garbross	in restmenta Avaliable for Saft	Sharanoideta adulta	Comulièrere vo income
27 Free Roll V	0 5 . ,		22. 1	cop ,	40 1111/23	40 100 100		1
BALANCE AT DECEMBER 31, 1998	368	S	4	\$ 1.107	\$ 2883	\$ 44	\$ 4.038	
Issuances of Common Stock.								
and related tax benefits	6		-	125	-	_	125	
Common Stock Repurchases	(39)		(1)	(982)	-	_	(983)	
Comprehensive Income								i .
Net Earnings	-		~	-	568	_	568	\$ 568
Other Comprehensive Income Adjustments								
Change in Net Unrealized Gains							_	
on Investments, net of tax effects	-		-	-	-	121	121	121
Comprehensive Income	-		-	-		-	- (0)	\$ 689
Common Stock Dividend	_		-		(6)	_	(6)	
BALANCE AT DECEMBER 31, 1999	335		3	250	3.445	165	3.863	
Issuances of Common Stock.								1
and related tax benefits	13		_	349	_	_	349	
Common Stock Repurchases	(31)		_	(599)	(581)	_	(1,180)	;
Comprehensive Income	ζ/				. ,		,	
Net Earnings	_		_		736	_	736	\$ 736
Other Comprehensive Income Adjustments								:
Change in Net Unrealized Cairis								}
on Investments, net of tax effects	_		-	_	_	(75)	(75)	(75)
Comprehensive Income	-		-	-	-	-	~	\$ 661
Common Stock Dividend					(5)	-	(5)	
DALANOE AT DECEMBED 24, 2000	317		3		3.595	90	3,688	
BALANCE AT DECEMBER 31, 2000  Issuances of Common Stock.	317		J	_	5.555	30	5,000	
and related tax benefits	11			474			474	:
Common Stock Repurchases	(19)			(435)	(694)		(1,129)	:
Comprehensive Income	(13)			(400)	(004)		(1,120)	:
Net Earnings	_		_	_	913	_	913	S 913
Other Comprehensive Income Adjustments					313		710	0 515
Change in Net Unrealized Gains								Ì
on Investments, net of tax effects	_		_	_		(46)	(46)	(46)
Comprehensive Income	_		_	-	_	(20)	(10)	\$ 867
Common Stock Dividend	-		-	_	(9)	_	(9)	<del> </del>
DALAMOR AT DECEMBER OF COOL	200	٠	,	e 20	¢ 2 00F	¢ 44	¢ 2 001	
BALANCE AT DECEMBER 31, 2001	309	\$	3	\$ 39_	\$ 3,805	\$ 44	\$ 3,891	}

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

		or the Year Ruded Dec	
(in rullinns)	2001	2000	7999 :
OPERATING ACTIVITIES	i		
Net Earnings	\$ 913	s 736	S 568
Noncash Items			:
Depreciation and Amortization	265	247	233
Deferred Income Taxes and Other	40	73	35
Net Change in Other Operating Items, net of effects	:		:
from acquisitions, sales of subsidiaries and changes			:
in AARP balances			:
Accounts Receivable and Other Current Assets	7	26	84
Medical Costs Payable	156	288	165
Accounts Payable and Accrued Liabilities	280	75	68
Other Policy Liabilities	131	87	(8)
Unearned Premiums	52	(11)	44
CASH FLOWS FROM OPERATING ACTIVITIES	1,844	1,521	1,189
and Parties	į		
INVESTING ACTIVITIES			:
Cash Paid for Acquisitions, net of cash assumed and other effects	(92)	(76)	(334)
Purchases of Property. Equipment and Capitalized Software	(425)	(245)	(196)
Purchases of Investments	(2,088)	(3.022)	(2.208)
Maturities and Sales of Investments	1,467	2.375	2,115 ·
CASH FLOWS USED FOR INVESTING ACTIVITIES	(1,138)	(968)	(623)
FINANCE ACTIVITIES			
FINANCING ACTIVITIES  Proceeds from Common Stock Issuances	178	228	102
Proceeds from (Payments of) Commercial Paper, net	275	(182)	532 :
Proceeds from Issuance of Long-Term Debt	250		150 :
Payments for Retirement of Long-Term Debt	(150)		(400) :
Common Stock Repurchases	(1,129)	(1,180)	(983)
Dividends Paid	(1,123)	(1,180)	(6)
CASH FLOWS USED FOR FINANCING ACTIVITIES	(585)	(739)	(605)
	(===)	, ,	`
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	121	(186)	(39)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,419	1,605	1,644
	# 1 F40	6 1 410	6 1000
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 1,540	\$ 1,419	\$ 1,605
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES			
Common Stock Issued for Acquisitions	\$ 163	s –	\$ -

See notes to consolidated financial statements.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## [ 1 ] DESCRIPTION OF BUSINESS

UnitedHealth Group Incorporated (also referred to as "UnitedHealth Group," "the company," "we," "us," "our") is a national leader in forming and operating orderly, efficient markets for the exchange of high quality health and well-being services. Through independent but strategically aligned, market-defined businesses, we offer health care access and coverage and related administrative, technology and information services designed to enable, facilitate and advance optimal health care.

## [ 2 ] SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### BASIS OF PRESENTATION

We have prepared the consolidated financial statements according to accounting principles generally accepted in the United States and have included the accounts of UnitedHealth Group and its subsidiaries. We have eliminated all significant intercompany balances and transactions.

#### USE OF ESTIMATES

These financial statements include some amounts that are based on our estimates and judgments. The most significant estimates relate to medical costs, medical costs payable, contingent liabilities, and asset valuations, allowances and impairments. We adjust these estimates as more current information becomes available, and any adjustment could have a significant impact on our consolidated operating results. The impact of any changes in estimates is included in the determination of earnings in the period in which the change in estimate is identified.

#### REVENUES

We recognize premium revenues in the period in which enrolled members are entitled to receive health care services. We record premium payments received from our customers prior to such period as uncarned premiums. We recognize fee revenues in the period the related services are performed. Premium revenues related to Medicare and Medicaid programs as a percentage of total premium revenues were 17% in 2001 and 2000, and 21% in 1999.

#### MEDICAL COSTS AND MEDICAL COSTS PAYABLE

Medical costs include claims paid, claims processed but not yet paid, estimates for claims received but not yet processed, and estimates for the costs of health care services people have received, but for which claims have not yet been submitted.

We develop our estimates of medical costs payable using actuarial methods based upon historical claim submission and payment data, cost trends, customer and product mix, seasonality, utilization of health care services, contracted service rates and other relevant factors. The estimates may change as actuarial methods change or as underlying facts upon which estimates are based change. We did not change actuarial methods during 2001, 2000 and 1999. Management believes the amount of medical costs payable is adequate to cover the company's liability for unpaid claims as of December 31, 2001; however, actual claim payments may differ from established estimates. Adjustments to medical costs payable estimates are reflected in operating results in the period in which the change in estimate is identified.

#### CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents are highly liquid investments with an original maturity of three months or less. The fair value of cash and cash equivalents approximates their carrying value because of the short maturity of the instruments. Investments with a maturity of less than one year are classified as short-term. We may sell investments classified as long-term before their maturity to fund working capital or for other purposes.

Because of regulatory restrictions, certain investments are included in long-term investments regardless of their maturity date. These investments are classified as held to maturity and are reported at amortized cost. All other investments are classified as available for sale and reported at fair value based on quoted market prices. We have no investments classified as trading securities.

Unrealized gains and losses on investments available for sale are excluded from earnings and reported as a separate component of shareholders' equity, net of income tax effects. We continually monitor the difference between the cost and estimated fair value of our investments. If any of our investments experience a decline in value that we believe is other than temporary, we record a realized loss in Investment and Other Income in our Consolidated Statements of Operations. To calculate realized gains and losses on the sale of investments, we use the specific cost of each investment sold.

#### ASSETS UNDER MANAGEMENT

We administer certain aspects of AARP's insurance program (see Note 5). Pursuant to our agreement, AARP assets are managed separately from our general investment portfolio and are used to pay costs associated with the AARP program. These assets are invested at our discretion, within investment guidelines approved by AARP. At December 31, 2001, the assets were invested in marketable debt securities. We do not guarantee any rates of investment return on these investments and, upon transfer of the AARP contract to another entity, cash equal in amount to the fair value of these investments would be transferred to that entity. Because the purpose of these assets is to fund the medical costs payable and rate stabilization fund liabilities associated with the AARP contract, assets under management are classified as current assets, consistent with the classification of these liabilities. Interest earnings and realized investment gains and losses on these assets accrue to AARP policyholders through the rate stabilization fund and, as such, are not included in our earnings. Interest income and realized gains and losses related to assets under management are recorded as an increase to the AARP rate stabilization fund and were \$113 million and \$91 million in 2001 and 2000, respectively. Assets under management are reported at their fair market value, and unrealized gains and losses are included in the rate stabilization fund associated with the AARP program. As of December 31, 2001 and 2000, the AARP investment portfolio included net unrealized gains of \$56 million and \$19 million, respectively.

## PROPERTY, EQUIPMENT AND CAPITALIZED SOFTWARE

Property, equipment and capitalized software is stated at cost, net of accumulated depreciation and amortization. Capitalized software consists of certain costs incurred in the development of internal-use software, including external direct material and service costs and payroll costs of employees fully devoted to specific software development.

We calculate depreciation and amortization using the straight-line method over the estimated useful lives of the assets. The useful lives for property, equipment and capitalized software are: from three to seven years for furniture, fixtures and equipment; the shorter of five years or the remaining lease term for leasehold improvements; and from three to nine years for capitalized software. The weighted-average useful life of property, equipment and capitalized software at December 31, 2001, was approximately five years.

The net book value of property and equipment was \$421 million and \$303 million as of December 31, 2001 and 2000, respectively. The net book value of capitalized software was \$426 million and \$254 million as of December 31, 2001 and 2000, respectively.

#### GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the amount by which the purchase price and transaction costs of businesses we have acquired exceeds the estimated fair value of the net tangible assets and identifiable intangible assets of these businesses. Goodwill and other intangible assets are amortized on a straight-line basis over useful lives ranging from three years to 40 years, with a weighted-average useful life of 32 years at December 31, 2001.

The two most significant components of goodwill and other intangible assets are: 1) goodwill of \$2.2 billion at December 31, 2001, and \$2.1 billion at December 31, 2000, net of accumulated amortization: and 2) employer group contracts, supporting infrastructure, distribution networks and institutional knowledge of \$512 million at December 31, 2001, and \$530 million at December 31, 2000, net of accumulated amortization.

#### · LONG-LIVED ASSETS

We review long-lived assets, including goodwill and other intangible assets, and property, equipment and capitalized software, for events or changes in circumstances that would indicate we might not recover their carrying value. We consider many factors, including estimated future cash flows associated with the assets, to make this decision. We record assets held for sale at the lower of their carrying amount or fair value, less any costs for the final settlement.

#### OTHER POLICY LIABILITIES

Other policy liabilities include the rate stabilization fund associated with the AARP program (see Note 5) and customer balances related to experience-rated insurance products.

Customer balances represent premium payments we have received that exceed what customers owe based on actual claim experience, and deposit accounts that have accumulated under experience-rated contracts. At the customer's option, these balances may be refunded or used to pay future premiums or claims under eligible contracts.

#### INCOME TAXES

Deferred income tax assets and liabilities are recognized for the differences between the financial and income tax reporting bases of assets and liabilities based on enacted tax rates and laws. The deferred income tax provision or benefit generally reflects the net change in deferred income tax assets and liabilities during the year. The current income tax provision reflects the tax consequences of revenues and expenses currently taxable or deductible on various income tax returns for the year reported.

#### STOCK-BASED COMPENSATION

We do not recognize compensation expense in connection with employee stock option grants because we grant stock options at exercise prices that equal or exceed the fair market value of the stock on the date the options are granted. Information on what our stock-based compensation expenses would have been had we calculated those expenses using the fair market values of outstanding stock options is included in Note 9.

#### NET EARNINGS PER COMMON SHARE

We compute basic net carnings per common share by dividing net earnings by the weighted-average number of common shares outstanding during the period. We determine diluted net earnings per common share using the weighted-average number of common shares outstanding during the period, adjusted for the dilutive effect of common stock equivalents, consisting of shares that might be issued upon exercise of common stock options

#### DERIVATIVE FINANCIAL INSTRUMENTS

As part of our risk management strategy, we may enter into interest rate swap agreements to manage our exposure to interest rate risk. The differential between fixed and variable rates to be paid or received is accrued and recognized over the life of the agreements as an adjustment to interest expense in the Consolidated Statements of Operations.

#### RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 141, business combinations initiated after June 30, 2001, must be accounted for using the purchase method of accounting. Under SFAS No. 142, amortization of goodwill and indefinite-lived intangible assets will cease, and the carrying value of these assets will instead be evaluated for impairment using a fair-value-based test, applied at least annually. We adopted SFAS No. 142 on January 1 2002, completed the initial impairment tests of goodwill as required by SFAS No. 142, and determined that our goodwill is not impaired. The following table shows net earnings and earnings per common share adjusted to reflect the adoption of the non-anortization provisions of SFAS No. 142 as of the beginning of the respective periods:

- . . - . . .

(in multions, except per shere data)	2001	For the Year Ended December 31 2000			1999
are unona except per succepte,	2001_		2007		
NET EARNINGS	:				
Reported Net Earnings	\$ 913	\$	736	S	568
Goodwill Amortization, not of tax effects	89		85		76
Adjusted Net Earnings	\$ 1,002	S	821	\$	644
BASIC NET EARNINGS PER COMMON SHARE					
Reported Basic Net Earnings per Share	\$ 2.92	\$	2.27	\$	1.63
Goodwill Amortization, net of tax effects	0.29		0.26		0.22
Adjusted Basic Net Earnings per Share	\$ 3.21	\$	2.53	\$	1.85
DILUTED NET EARNINGS PER COMMON SHARE					
Reported Diluted Net Earnings per Share	\$ 2.79	\$	2.19	\$	1.60
Goodwill Amortization, net of tax effects	0.28		0.25	_	0.21
Adjusted Diluted Net Earnings per Share	\$ 3.07	\$	2.44	\$	1.81

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. We must adopt the standard on January 1, 2003. We do not expect the adoption of SFAS No. 143 will have any impact on our financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144. "Accounting for Impairment or Disposal of Long-Lived Assets," which provides new accounting and financial reporting guidance for the impairment or disposal of long-lived assets and the disposal of segments of a business. We adopted the standard on January 1, 2002, and its adoption did not have any impact on our financial position or results of operations.

#### RECLASSIFICATIONS

Certain 1999 and 2000 amounts in the consolidated financial statements have been reclassified to conform to the 2001 presentation. These reclassifications have no effect on net earnings or shareholders' equity as previously reported.

## [ 3 ] ACQUISITIONS

In October 2001, our Specialized Care Services business segment acquired Spectera. Inc. (Spectera), a leading vision care benefit company in the United States, to expand the breadth of service offerings we extend to our customers. We paid \$37 million in cash, accrued \$25 million for additional consideration due, and issued 1.2 million shares of common stock with a value of \$81 million in exchange for all outstanding shares of Spectera. The purchase price and related acquisition costs of approximately \$146 million exceeded the preliminary estimated fair value of net assets acquired by \$126 million. Under the purchase method of accounting, we assigned this amount to goodwill. The results of Spectera's operations since the acquisition date are included in our 2001 Consolidated Statement of Operations. The proforma effects of the Spectera acquisition on our consolidated financial statements were not material. In February 2002, the \$25 million of accrued consideration was satisfied by issuing an additional 335,000 shares of our common stock.

In September 1999, our Ingenix business segment acquired Worldwide Clinical Trials. Inc. (WCT), a leading clinical research organization. We paid \$214 million in cash in exchange for all outstanding shares of WCT, and we accounted for the purchase using the purchase method of accounting. Only the post-acquisition results of WCT are included in our consolidated financial statements. The purchase price and other acquisition costs exceeded the estimated fair value of net assets acquired by \$214 million, which was assigned to goodwill and is being amortized over its estimated useful life of 30 years. The proforma effects of the WCT acquisition on our consolidated financial statements were not material.

In June 1999, our Specialized Care Services business segment acquired Dental Benefit Providers, Inc. (DBP), one of the largest dental benefit management companies in the United States. We paid \$105 million in cash, and we accounted for the acquisition using the purchase method of accounting. The purchase price and other acquisition costs exceeded the estimated fair value of net assets acquired by \$105 million, which was assigned to goodwill and is being amortized over its estimated useful life of 40 years. The proforma effects of the DBP acquisition on our consolidated financial statements were not material.

For the years ended December 31, 2001, 2000 and 1999, consideration paid or issued for smaller acquisitions accounted for under the purchase method, which were not material to our consolidated financial statements, was \$134 million, \$76 million and \$15 million, respectively.

## [ 4 ] OPERATIONAL REALIGNMENT AND OTHER CHARGES

In conjunction with a comprehensive operational realignment initiated in 1998, we developed and approved an implementation plan (the Plan). We recognized corresponding charges to operations of \$725 million in the second quarter of 1998, which reflected the estimated costs to be incurred under the Plan. The charges included costs associated with asset impairments; employee terminations: disposing of or discontinuing business units, product lines and contracts; and consolidating and eliminating certain claim processing and customer service operations and associated real estate obligations.

We completed our operational realignment plan in 2001. Actual costs incurred executing the Plan exceeded estimates by approximately \$4 million, which has been included in 2001 operating costs in the Consolidated Statements of Operations. These excess costs were incurred in the fourth quarter of 2001. Activities associated with the Plan resulted in the reduction of approximately 5.100 positions, affecting approximately 5.800 people.

As of December 31, 2000, we had completed all planned business dispositions and market exits pursuant to the Plan. Accordingly, our 2001 financial statements do not include the operating results of exited businesses or markets. Our Consolidated Statements of Operations include results for businesses disposed of and markets exited in connection with our operational realignment as follows: \$312 million in revenues and \$9 million in earnings from operations in 2000, and \$689 million in revenues and \$41 million of losses from operations in 1999. These amounts do not include operating results from the counties where UnitedHealthcare withdrew its Medicare product offerings effective January 1, 2001, and January 1, 2000. Annual revenues for 2000 from the counties exited effective January 1, 2001, were approximately \$320 million. Annual revenues for 1999 from the counties exited effective January 1, 2000, were approximately \$230 million.

The operational realignment and other charges did not cover certain aspects of the Plan, including new information systems, data conversions, process re-engineering, temporary duplicate staffing costs as we consolidated processing and service centers, and employee relocation and training. These costs were expensed as incurred or capitalized, as appropriate, During 2001, 2000 and 1999, we incurred expenses of approximately \$20 million, \$57 million and \$52 million, respectively, related to these activities.

The table below is a roll-forward of accrued operational realignment and other charges, which are included in Accounts Payable and Accrued Liabilities in the accompanying Consolidated Balance Sheets (in millions):

		set merts	On.b.	ands and anearers Josts	- 1	ancelabio Laase Igations	Busin	osition of resses and rer Costs	Tota
Balance at December 31, 1997	S	_	\$	_	S	_	\$	_	\$ - !
Provision for Operational Realignment									:
and Other Charges	-	430		142		82		71	725
Additional Charges (Credits)		21		(20)		(9)		8	- !
Cash Payments				(19)		(6)		(13)	(38)
Noncash Charges	(-	451)		-		-		_	(451)
Balance at December 31, 1998		_		103		67		66	236
Additional Charges (Credits)		_		(22)		13		9	- :
Cash Payments		-		(46)		(18)		(45)	(109)
Balance at December 31, 1999		_		35		62		30	127
Cash Payments		-		(24)		(20)		(18)	(62)
Balance at December 31, 2000		_		11		42		12	65
Additional Charges (Credits)		-		10		-		(6)	4
Cash Payments				(21)		(11)		(6)	(38)
Noncash Charges		-		_		(31)		-	(31)
Balance at December 31, 2001	\$	-	\$	-	\$	-	\$	-	\$ -

I Consists of noncancelable lease obligations for which definitive subleases have been finalized. These amounts have been transferred to other liability accounts as they are fixed and determinable obligations

## 5 AARP

In January 1998, we began providing services under a 10-year contract to provide insurance products and services to members of AARP. Under the terms of the contract, we are compensated for claim administration and other services as well as for assuming underwriting risk. We are also engaged in product development activities to complement the insurance offerings under this program. Premium revenues from our portion of the AARP insurance offerings were approximately \$3.5 billion during 2001, 2000 and 1999.

The underwriting gains or losses related to the AARP business are recorded as an increase or decrease to a rate stabilization fund (RSF). The primary components of the underwriting results are premium revenue, medical costs, investment income, administrative expenses, member service expenses, marketing expenses and premium taxes. Underwriting gains and losses are charged to the RSF and accrue to AARP policyholders, unless cumulative net losses were to exceed the balance in the RSF. To the extent underwriting losses exceed the balance in the RSF, we would have to fund the deficit. Any deficit we fund could be recovered by underwriting gains in future periods of the contract. The RSF balance is reported in Other Policy Liabilities in the accompanying Consolidated Balance Sheets. We believe the RSF balance is sufficient to cover potential future underwriting or other risks associated with the contract.

When we entered the contract, we assumed the policy and other policy liabilities related to the AARP program, and we received cash and premium receivables from the previous insurance carrier equal to the carrying value of these liabilities as of January 1, 1998. The following AARP program-tolated assets and liabilities are included in our Consolidated Balance Sheets (in millions):

	Balarine as of December 51,				
	2001		2000		
Assets Under Management	\$ 1,882	\$	1,625		
Accounts Receivable	\$ 281	\$	277		
Medical Costs Payable	\$ 867	\$	855		
Other Policy Liabilities	\$ 1,180	\$	932		
Accounts Payable and Accrued Liabilities	<b>\$ 116</b> .	\$	115 <sup>-</sup>		

The effects of changes in balance sheet amounts associated with the AARP program accrue to AARP policyholders through the RSF balance. Accordingly, we do not include the effect of such changes in our Consolidated Statements of Cash Flows.

## [ 6 ] CASH, CASH EQUIVALENTS AND INVESTMENTS

As of December 31, the amortized cost, gross unrealized holding gains and losses, and fair value of cash, cash equivalents and investments were as follows (in millions):

2001	Arnortized Cost	Grass Unresided Gains	Gross United It.K. 1953es	For Value
Cash and Cash Equivalents	\$ 1,540	\$ -	\$ -	\$1,540
Debt Securities - Available for Sale	3,806	121	(20)	3,907
Equity Securities - Available for Sale	201	16	(46)	171
Debt Securities - Held to Maturity	80	-	•	80
Total Cash and Investments	\$ 5,627	\$ 137	<b>\$</b> (66) _	\$5,698
2000				
Cash and Cash Equivalents	\$ 1,419	\$ -	\$ -	\$1.419
Debt Securities — Available for Sale	3,198	89	(6)	3,281
Equity Securities — Available for Sale	201	61	_	262
Debt Securities Held to Maturity	91		-	91
Total Cash and Investments	\$ 4,909	\$_150	S (6)	\$ 5,053

As of December 31, 2001, debt securities consisted of \$1,073 million in U.S. Government and Agency obligations, \$1,684 million in state and municipal obligations and \$1,230 million in corporate obligations. At December 31, 2001, we held \$306 million in debt securities with maturities less than one year, \$1,475 million in debt securities maturing in one to five years, and \$2,206 million in debt securities with maturities of more than five years.

During 2001, 2000 and 1999, respectively, we contributed UnitedHealth Capital investments valued at approximately \$22 million, \$52 million and \$50 million to the UnitedHealth Foundation, a non-consolidated, not-for-profit organization. The realized gain of approximately \$18 million in 2001, \$51 million in 2000 and \$49 million in 1999 was offset by the related contribution expense of \$22 million in 2001, \$52 million in 2000 and \$50 million in 1999. The net expense of \$4 million in 2001 and \$1 million in both 2000 and 1999 is included in Investment and Other Income in the accompanying Consolidated Statements of Operations.

In a separate disposition of UnitedHealth Capital investments during 2000, we realized a gain of \$27 million

We recorded realized gains and losses on the sale of investments, excluding the UnitedHealth Capital dispositions described above, as follows (in millions):

	For the Year Ended December 31,				
	2001	2000	1999		
Gross Realized Gains	\$ 30	\$ 12	s 9		
Gross Realized Losses	(19)	(46)	(15)		
Net Realized Gains (Losses)	\$ 11	<b>s</b> (34)	S (6)		

## 7 COMMERCIAL PAPER AND DEBT

Commercial paper and debt consisted of the following as of December 31 (in millions):

	20	001	2000			
	Carrying	Fs	Carrying	Pois I		
	Value <sub>,</sub>	Value	√z`,∞	`° ∪ <u>€</u>		
Commercial Paper	\$ 684	\$ 684	<b>S</b> 409	\$ 409		
Floating-Rate Notes				:		
due November 2001	-	-	150	150		
Floating-Rate Notes				:		
due November 2003	100	100	-	-		
Floating-Rate Notes						
due November 2004	150	150	-	-		
6.6% Senior Unsecured Notes						
due December 2003	250	266	250	250		
7.5% Senior Unsecured Notes						
duc November 2005	400	433	400	413 :		
Total Commercial Paper and Debt	1,584	1,633	1,209	1.222		
Less Current Maturities	(684)	(684)	(559)	(559)		
Long-Term Debt, less current maturities	\$ 900	\$ 949	\$ 650	S 663		

As of December 31, 2001, our outstanding commercial paper had interest rates ranging from 1.9% to 2.7%. In November 2001, we issued \$100 million of floating-rate notes due November 2003 and \$150 million of floating-rate notes due November 2004. The interest rates on the notes are reset quarterly to the three-month LIBOR (London Interbank Offered Rate) plus 0.3% for the notes due November 2003 and to the three-month LIBOR plus 0.6% for the notes due November 2004. As of December 31, 2001, the applicable rates on the notes were 2.4% and 2.7%, respectively. A portion of the proceeds from these borrowings was used to repay the \$150 million of floating-rate notes that matured in November 2001.

In January 2002, we issued \$400 million of 5.2% fixed-rate notes due January 2007. Proceeds from this borrowing will be used to repay commercial paper and for general corporate purposes including working capital, capital expenditures, business acquisitions and share repurchases. When we issued these notes, we entered into interest rate swap agreements that qualify as fair value hedges to convert a portion of our interest rate exposure from a fixed to a variable rate. The interest rate swap agreements have an aggregate notional amount of \$200 million maturing January 2007. The variable rates approximate the six-month LIBOR and are reset on a semiannual basis.

We have credit arrangements for \$900 million that support our commercial paper program. These credit arrangements include a \$450 million revolving facility that expires in July 2005, and a \$450 million, 364-day facility that expires in July 2002. We also have the capacity to issue approximately \$200 million of extendible commercial notes (ECNs). As of December 31, 2001 and 2000, we had no amounts outstanding under our credit facilities or ECNs.

Our debt agreements and credit facilities contain various covenants, the most restrictive of which require us to maintain a debt-to-total-capital ratio below 45% and to exceed specified minimum interest coverage levels. We are in compliance with the requirements of all debt covenants.

Maturities of commercial paper and debt, excluding the impact of the debt issued in January 2002, for the years ending December 31 are as follows (in millions):

2002	2003	2004	2005	2006	Thereafter
\$ 684	\$ 350	<b>\$</b> 150	\$ 400	\$ -	\$ -

We made cash payments for interest of \$91 million, \$68 million and \$43 million in 2001. 2000 and 1999, respectively.

# [ 8 ] SHAREHOLDERS' EQUITY

#### REGULATORY CAPITAL AND DIVIDEND RESTRICTIONS

We conduct our operations through our wholly-owned subsidiaries. These companies are subject to standards established by the National Association of Insurance Commissioners (NAJC) that, among other things, require them to maintain specified levels of statutory capital, as defined by each state, and restrict the timing and amount of dividends and other distributions that may be paid to their parent companies. Generally, the amount of dividend distributions that may be paid by a regulated subsidiary, without prior approval by state regulatory authorities, is limited based on the entity's level of statutory net income and statutory capital and surplus. At December 31, 2001, approximately \$660 million of our \$5.7 billion of cash and investments was held by non-regulated subsidiaries. Of this amount, approximately \$260 million was segregated for future regulatory capital needs and \$230 million was available for general corporate use, including acquisitions and share repurchases. The remaining \$170 million consists primarily of public and non-public equity securities held by UnitedHealth Capital, our investment capital business.

The agencies that assess our creditworthiness also consider capital adequacy levels when establishing our debt ratings. Consistent with our intention of maintaining our senior debt ratings in the "A" range, we maintain an aggregate statutory capital and surplus level for our regulated subsidiaries that is significantly higher than the level regulators require. As of December 31, 2001, our regulated subsidiaries had aggregate statutory capital and surplus of approximately \$2.0 billion, more than \$1.1 billion above the \$850 million of required aggregate capital and surplus.

#### STOCK REPURCHASE PROGRAM

Under our board of directors' authorization, we maintain a common stock repurchase program. Repurchases may be made from time to time at prevailing prices, subject to restrictions on volume, pricing and timing. During 2001, we repurchased 19.6 million shares for an aggregate of \$1.1 billion. Through December 31, 2001, we had repurchased approximately 112.5 million shares for an aggregate cost of \$3.7 billion since the program began in November 1997. As of December 31, 2001, we had board of directors' authorization to purchase up to an additional 8.8 million shares of our common stock. In February 2002, the board of directors authorized us to repurchase up to an additional 30 million shares of common stock under the program.

As part of our share repurchase activities, we have entered into agreements with an independent third party to purchase shares of our common stock, where the number of shares we purchase, if any, depends upon market conditions and other contractual terms. As of December 31, 2001, we had conditional agreements to purchase up to 6.1 million shares of our common stock at various times and prices through 2003, at an average price of approximately \$58 per share.

# PREFERRED STOCK

At December 31, 2001, we had 10 million shares of \$0.001 par value preferred stock authorized for issuance, and no preferred shares issued and outstanding.

# DIVIDENDS

On February 12, 2002, the board of directors approved an annual dividend for 2002 of \$0.03 per share. The dividend will be paid on April 17, 2002, to shareholders of record at the close of business on April 1, 2002.

# 9 STOCK-BASED COMPENSATION PLANS

The company maintains various stock and incentive plans for the benefit of eligible employees and directors. As of December 31, 2001, employee stock and incentive plans allowed for the future granting of up to 29.6 million shares as incentive or non-qualified stock options, stock appreciation rights, restricted stock awards and performance awards. Our non-employee director stock option plan allowed for future granting of 710,000 non-qualified stock options as of December 31, 2001.

Stock options are granted at an exercise price not less than the fair market value of the common stock at the date of grant. They generally vest over four years and may be exercised up to 10 years from the date of grant. Activity under our various stock plans is summarized in the table below (shares in thousands):

	2	2001		3	20110			993		
		Weighte	so-Averago (		Weighte	d-Alerago		Weighted	Average	2 :
	 Sheres	Extra	de Price 🚦	Stiares	Exerc	se Price	Shares	Exercisa	e Parce	;
Outstanding at Beginning of Year	38,810	\$	22	44,080	\$	ι9	36,748	\$	19	1
Granted	8,333	\$	53	8,516	\$	30	14,406	\$	20	}
Exercised	(7,716)	\$	20	(12,331)	\$	17	(4.666)	\$	17	:
Forfeited	(1,090)	\$	25	(1.455)	\$	20	(2.408)	\$	20	÷
Outstanding at End of Year	38,337	\$	29	38.810	\$	22	44.080	S	19	}
Exercisable at End of Year	19,585	\$	21	17,367	\$	20	15.558	S	17	-;

As of December 31, 2001		Options Published Wordhed-Average	<u>'</u> q		Options	Exercisable		
Rance of Exercise Prices	Number Ostatároling	Remaining Option Term (voars)	Weighted Exercise		Number Exercisable	Weighted-A Eventise		
\$ 0 - \$20	6.170	5.4	\$	17	5,253	3	17	
\$21 - \$40	23.853	7.4	\$	24	14,188	\$	22	
\$41 - \$70	8,314	9.1	\$	53	144	\$	51	
<u>s 0-</u> \$70	38.337	7.4	\$	29	19,585_	\$	21	

We do not recognize compensation expense in connection with stock option grants because we grant stock options at exercise prices that equal or exceed the fair market value of the stock at the time options are granted. If we had determined compensation expense using fair market values for the stock options, not earnings per common share would have been reduced to the following pro forma amounts:

		2001		2000		1999	
Net Earnings (in millions)							_
As Reported	\$	913	\$	736	S	568	:
Рго Гогта	\$	831	\$	660	\$	531	
Basic Net Earnings per Common Share		;					:
As Reported	\$	2.92	S	2.27	\$	1.63	1
Pro Forma	\$	2.66	\$	2.0.1	S	1.52	;
Diluted Net Earnings per Common Share	-	1			4 3		Ξ,
As Reported	\$	2.79	\$	2.19	\$	1.60	į
Pro Forma	\$	2.54	\$	1.96	\$	1.50	;
Weighted-Average Fair Value per Share of		1					1
Options Granted	\$	23	\$	14	\$	12	

To determine compensation cost under the fair value method, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. Principal assumptions we used in applying the Black-Scholes model were as follows:

-	2001	2000	1999
Risk-Free Interest Rate	3.7%	5.0%	6.7%
Expected Volatility	45.9%	49.0%	50.0%
Expected Dividend Yield	0.1%	0.1%	0.1%
Expected Life in Years	4.8	4.5	5.0

We also maintain a non-leveraged employee stock ownership plan and an employee stock purchase plan. Activity related to these plans was not significant in relation to our consolidated financial results in 2001. 2000 and 1999.

# [ 10 ] INCOME TAXES

Components of the Provision (Benefit) for Income Taxes

Near Ended Darrember 31 (in milhons)		2001	2000	1999
Current			•	
Federal		\$ 524	S 330	\$ 264
State		<b>45</b> 1	38	36
Total Current		569	368	300
Deferred	27.00	 (10) :	51	26
Total Provision		\$ 559	S 419	\$ 326

Reconciliation of the Tax Provision at the U.S. Federal Statutory Rate to the Provision for Income Taxes

Feor Ended December 31 (in millions)	2001	2000	1099
Tax Provision at the	!		:
U.S. Federal Statutory Rate	\$ 515	\$ 404	\$ 313
State Income Taxes, net of federal benefit	29	29	24
Tax-Exempt Investment Income	(21)	(17)	(16)
Non-deductible Amortization	29	27	25
Charitable Contributions	-	(18)	(16)
Other, net	7 :	(6)	(4)
Provision for Income Taxes	<b>\$ 559</b> :	\$ 419	\$ 326

# Components of Deferred Income Tax Assets and Liabilities

As of December 31 (in millions)	2001	2000
Deferred Income Tax Assets	,	
Accrued Expenses and Allowances	\$ 198 <sup>!</sup>	\$ 126
Unearned Premiums	65	74
Medical Costs Payable and	<b>;</b>	
Other Policy Liabilities	84	84
Net Operating Loss Carryforwards	39	42
Other .	30 <sup>!</sup>	10
Subtotal	416	336
Less: Valuation Allowances	(53)	(56)
Total Deferred Income Tax Assets	363	280
Deferred Income Tax Liabilities		
Capitalized Software Development	(128)	(80)
Net Unrealized Gains on Investments		ŕ
Available for Sale	(31)	(59)
Depreciation & Amortization	(22)	(12)
Total Deferred Income Tax Liabilities	(181)	(151)
Net Deferred Income Tax Assets	\$ 182	\$ 129

Valuation allowances are provided when it is considered unlikely that deferred tax assets will be realized. The valuation allowance primarily relates to future tax benefits on certain purchased domestic and foreign net operating loss carryforwards.

We made cash payments for income taxes of \$384 million in 2001, \$352 million in 2000 and \$214 million in 1999. We increased additional paid-in capital and reduced income taxes payable by \$133 million in 2001, \$116 million in 2000 and \$23 million in 1999 to reflect the tax benefit we received upon the exercise of non-qualified stock options.

The company, together with its wholly-owned subsidiaries, files a consolidated federal income tax return. Tax returns for fiscal years 1998 and 1999 are currently being examined by the Internal Revenue Service. We do not believe any adjustments that may result will have a significant impact on our consoli-

dated operating results or financial position. Examinations for the 1996 and 1997 tax years have been completed and did not have a significant impact on our consolidated operating results or financial position.

# [ 11 ] COMMITMENTS AND CONTINGENCIES

# LEASES

We lease facilities, computer hardware and other equipment under long-term operating leases that are non-cancelable and expire on various dates through 2011. Rent expense under all operating leases was \$135 million in 2001. \$132 million in 2000 and \$129 million in 1999.

At December 31, 2001, future minimum annual lease payments, net of sublease income, under all noncancelable operating leases were as follows (in millions).

2002	2003	2004	2005	2098	Therealter
\$ 99	\$ 90	<b>\$</b> 77	\$ 68	\$ 60	\$ 224

#### SERVICE AGREEMENTS

In 1995 and 1996, we entered into three separate contracts for certain data center operations and support, and network and voice communication services, each with an approximate term of 10 years. Expenses incurred in connection with these agreements were \$196 million in 2001, \$182 million in 2000 and \$172 million in 1999.

#### LEGAL MATTERS

Because of the nature of our businesses, we are routinely party to a variety of legal actions related to the design, management and offerings of our services. These matters include: claims relating to health care benefits coverage, medical malpractice actions; allegations of anti-competitive and unfair business activities; disputes over compensation and termination of contracts including those with physicians and other health care providers; disputes related to our administrative services, including actions alleging claim administration errors and failure to disclose rate discounts and other fee and rebate arrangements, disputes over benefit copayment calculations; claims related to disclosure of certain business practices; and claims relating to customer audits and contract performance.

In 1999, a number of class action lawsuits were filed against us and virtually all major entities in the health benefits business. The suits are purported class actions on behalf of certain customers and physicians for alleged breaches of federal statutes, including the Employee Retirement Income Security Act of 1974, as amended (ERISA), and the Racketeer Influenced Corrupt Organization Act (RICO). Although the results of pending litigation are always uncertain, we do not believe the results of any such actions, including those described above, currently threatened or pending will, individually or in aggregate, have a material adverse effect on our results of operations or financial position.

# GOVERNMENT REGULATION

Our business is regulated domestically at federal, state and local levels, and internationally. The laws and rules governing our business are subject to frequent change, and agencies have broad latitude to administer those regulations. State legislatures and Congress continue to focus on health care issues as the subject of proposed legislation. Existing or future laws and rules could force us to change how we do business, restrict revenue and enrollment growth, increase our health care and administrative costs and capital requirements, and increase our liability related to coverage interpretations or other actions. Further, we must obtain and maintain regulatory approvals to market many of our products.

We are also subject to various governmental reviews, audits and investigations. However, we do not believe the results of any of the current audits, individually or in the aggregate, will have a material adverse effect on our financial position or results of operations.

# [ 12 ] SEGMENT FINANCIAL INFORMATION

Factors used in determining our reportable business segments include the nature of operating activities, existence of separate senior management teams, and the type of information presented to the company's chief operating decision-maker to evaluate our results of operations.

Our accounting policies for business segment operations are the same as those described in the Summary of Significant Accounting Policies (see Note 2). Transactions between business segments principally consist of customer service and claim processing services. Uniprise provides to UnitedHealthcare, certain product offerings sold to Uniprise and UnitedHealthcare customers by Specialized Care Services, and sales of medical benefits cost, quality and utilization data and predictive modeling to UnitedHealthcare by Ingenix. These transactions are recorded at management's best estimate of fair value, as if the services were purchased from or sold to third parties. All intersegment transactions are eliminated in consolidation. Assets and liabilities that are jointly used are assigned to each segment using estimates of prorate usage. Cash and investments are assigned such that each segment has minimum specified levels of regulatory capital or working capital for non-regulated businesses. The "Corporate and Eliminations" column includes companywide costs associated with core process improvement initiatives, net expenses from charitable contributions to the UnitedHealth Foundation, and eliminations of intersegment transactions. In accordance with accounting principles generally accepted in the United States, segments with similar economic characteristics may be combined. The financial results of UnitedHealthcare and Ovations have been combined in the Health Care Services segment column in the tables presented on this page because both businesses have similar products and services, types of customers, distribution methods and operational processes, and both operate in a similar regulatory environment (in millions).

2001	Hes'th Care	ilaness	Specia ized	lac n.	Corporate	Conscilicated
Revenues - External Customers Revenues - Intersegment Investment and Other Income Total Revenues	\$ervices \$ 20,259 - 235 \$ 20,494	\$ 1,841 587 34 \$ 2,462	\$ 734 504 16 \$ 1,254	\$ 339 108 - \$ 447	\$ - (1,199) (4) \$ (1,203)	\$23,173 281 \$23,454
Earnings From Operations	\$ 944	\$ 374	\$ 214	\$ 48	\$ (14)	\$ 1,566
Total Assets <sup>1</sup>	\$ 9,014	\$ 1,737	\$ 848	\$ 771	\$ (200)	\$12,170
Net Assets <sup>3</sup>	\$ 3,408	\$ 1,020	\$ 514	\$ 646	\$ (158)	\$ 5,430
Purchases of Property, Equipment and Capitalized Software Depreciation and Amortization	\$ 152	\$ 171	\$ 33	\$ 69	\$ -	\$ 425
	\$ 101	\$ 81	\$ 33	\$ 50	- \$ -	\$ 265
2000 Revenues — External Customers Revenues — Intersegment Investment and Other Income Total Revenues	\$18,502 194 \$18,696	\$ 1,595 520 25 \$ 2,140	\$ 503 461 10 \$ 974	\$ 290 85 \$ 375	\$ - (1.066) 3 - \$ (1.063)	\$20,890 - 232 \$21,122
Earnings From Operations	\$ 739	\$ 289	\$ 174	\$ 32	\$ (34)	\$ 1.200
Total Assets	\$ 8,118	\$ 1,578	\$ 525	\$ 730	\$ (133)	\$10.818
Net Assets	\$ 3,085	\$ 978	\$ 276	\$ 617	\$ (113)	\$ 4.843
Purchases of Property, Equipment and Capitalized Software <u>Depreciation and Amortization</u>	S 88	\$ 94	\$ 28	\$ 35	\$ -	\$ 245
	\$ 100	\$ 75	\$ 25	\$ 47	\$ -	\$ 247
1999 Revenues — Extornal Customers Revenues — Intersegment Investment and Other Income Total Revenues	\$ 17,419	\$ 1,398	\$ 328	\$ 198	\$ -	\$ 19,343
	-	445	393	59	(897)	-
	162	22	5	1	29	219
	\$ 17,581	\$ 1,865	\$ 726	\$ 258	\$ (868)	\$ 19,562
Earnings From Operations	\$ 578	\$ 222	\$ 128	\$ 25	\$ (10)	\$ 943
Total Assets <sup>1</sup>	\$ 7.364	\$ 1,411	\$ 446	\$ 683	\$ 206	\$ 10,110
Net Assets <sup>1</sup>	\$ 2.892	\$ 953	\$ 230	\$ 573	\$ 221	\$ 4,869
Purchases of Property, Equipment and Capitalized Software Depreciation and Amortization	\$ 69 \$ 97	\$ 71 \$ 76	\$ 28 \$ 23	\$ 28 \$ 37	\$ - \$ -	\$ 196 <b>\$</b> 233

<sup>1</sup> Total Assets and Net Assets exclude, where applicable, debt and accrued interest of \$1.603 million, \$1,222 million and \$1.002 million, income tax-related assets of \$316 million. \$235 million and \$163 million, and income tax-related liabilities of \$252 million, \$168 million and \$167 million as of December 31, 2001, 2000 and 1999, respectively.

# [ 13 ] QUARTERLY FINANCIAL DATA (UNAUDITED)

		For the Quarter Frided						
'in nothons, except per share data)		45 ch 31		June 30	Sect	ember 30	[/සე-	mbe 31
								:
2001								;
Revenues	\$	5,680	\$	5,813	\$	5,941	\$	6,020
Medical and Operating Expenses	\$	5,315	\$	5,429	\$	5,545	\$	5,599
Earnings From Operations	\$	365	\$	384	\$	396	\$	421
Net Earnings	\$	212	\$	223	\$	231	\$	247
Basic Net Earnings per Common Share	\$	0.67	\$	0.71	\$	0.75	\$	0.79
Diluted Net Earnings per Common Share	\$	0.64	\$	0.68	\$	0.71	\$	0.76
								}
2000								1
Revenues	S	5,099	\$	5,220	\$	5.369	\$	5,434
Medical and Operating Expenses	S	4.826	S	4,932	\$	5.060	\$	5.104
Earnings From Operations	S	273	S	288	S	309	S	330
Net Earnings	\$	174	\$	170	S	182	S	210' :
Basic Ner Earnings per Common Share	S	0.53	\$	0.52	\$	0.56	S	0.66
Diluted Net Earnings per Common Share	S	0.52	\$	0.50	S	0 54	Ś	0.63

<sup>&</sup>lt;sup>1</sup> Includes a \$14 million, net permanent tay benefit related to the contribution of UnitedHealth Capital investments to the UnitedHealth Foundation. Excluding this benefit. Net Earnings and Diluted Net Earnings per Common Share were \$160 million and \$0.48 per share, respectively.

<sup>&</sup>lt;sup>2</sup> Includes a \$27 million gain (\$17 million after tax) related to the disposition of Unitedflealth Capita: investments, Excluding this gain, Net Farrings and Diluted Net Farrings per Common Share were \$193 million and \$0.58 per share, respectively

#### REPORT OF MANAGEMENT

The management of UnitedHealth Group is responsible for the integrity and objectivity of the consolidated financial information contained in this annual report. The consolidated financial statements and related information were prepared according to accounting principles generally accepted in the United States and include some amounts that are based on management's best estimates and judgments.

To meet its responsibility, management depends on its accounting systems and related internal accounting controls. These systems are designed to provide reasonable assurance, at an appropriate cost, that financial records are rehable for use in preparing financial statements and that assets are safeguarded. Qualified personnel throughout the organization maintain and monitor these internal accounting controls on an ongoing basis.

The Audit Committee of the board of directors, composed entirely of directors who are not employees of the company, meets periodically and privately with the company's independent public accountants and management to review accounting, auditing, internal control, financial reporting and other matters.

William W. McGuire, MD Chairman and Chief Executive Officer

Stephen J. Hemsley
President and Chief Operating Officer

Patrick J. Erlandson Chief Financial Officer

# REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Sharcholders and Directors of UnitedHealth Group Incorporated:

We have audited the accompanying consolidated balance sheets of UnitedHealth Group Incorporated (a Minnesota Corporation) and Subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UnitedHealth Group Incorporated and its Subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP Minneapolis, Minnesota January 24, 2002

# CORPORATE AND BUSINESS LEADERS

# UnitedHealth Group

William W. McGuire, MD

Clair man and Chief Executive Officer

Stephen J. Hemsley

President and Chicí Operating Officer

Patrick J. Erlandson

Chief Financial Officer

David J. Lubben

General Coursel

Jeannine M. Rivet

Executive Vice President

James B. Hudak

Chief Executive Officer UnitedHealth Technologies

Reed V. Tuckson, MD

Senior Vice President Consumer Health and Medical Care Advancement

L. Robert Dapper

Senior Vice President Human Capital

John S. Penshorn

Director of Capital Markets Communications and Strategy

# UnitedHealthcare

Robert J. Sheehy

Chief Executive Officer

# Ovations

Lois Quam

Chief Executive Officer

Uniprise

R. Channing Wheeler

Chief Executive Officer

Specialized Care Services

Ronald B. Colby

Chief Executive Officer

Ingenix

Jeannine M. Rîvet

Chief Executive Officer

# BOARD OF DIRECTORS

William C. Ballard, Jr.

Of Counsel

Greenchaum Doll & McDonald Louisidle, konsucky law firm

Richard T. Burke

Former Chief Exercutve Officer

and Governor

Phoenix Coyotes National Hockey League town

Stephen J. Hemsicy

President and

Chief Operating Offices

UnitedHealth Group

James A. Johnson

Vice Chairman

Perseus, LLC

Private merchant banking and investment fieur

Thomas H. Kean

President

Drew University

Douglas W. Leatherdale

Former Chairman and

Chief Executive Officer
The St. Paul Companies, Inc.

Insurance and related services

William W. McGuire, MO

Chairman and

Chief Executive Officer

UnitedHealth Group

Walter F. Mondale

Parmer

Dorsey & Whitney LLP

Mameapolis, Minnesota, law firm

Mary O. Mundinger, RN, DrPH

Dean and Centennial Professor in

Health Policy, School of Nursing, and Associate Dean, Faculty of Medicine

Columbia University

Robert L. Ryan

Senior Vice President and

Chief Financial Officer

Medtronic, Inc.

Medical rechnology company

Donna E. Shalala, PhD

President

University of Miami

William G. Spears

Managing Parmer

Spears Grisanti &

Brown LLC

New York City based investing of

counseling and management firm

Gail R. Wilensky, PhD

Senior Fellow

Project HOPF

International health foundation

Audit Committee

William C. Ballard, Jr.

James A. Johnson

Douglas W. Leatherdale

Douglas W. Learnerga

Robert L. Ryan

Compensation and Human Resources Committee

Thomas H. Kean

Mary O. Mundinger

William G. Spears

Compliance and Government Affairs Committee

Richard T. Burke

Walter F. Mondale

Gail R. Wilensky

Executive Committee

William C. Ballard, Jr.

Douglas W. Leatherdale

William W. McGuire William G. Spears

Nominating Committee

William C. Ballard, Jr.

Thomas H. Kean

Douglas W. Leatherdale

William W. McGuire William G. Spears

# FINANCIAL PERFORMANCE AT A GLANCE

GROWTH & PROFITS - CONSOLIDATED (nomillions except per share data)	2001	2000	7995
Revenues Continuing Markets Revenue Growth Rate	\$ 23,454 15%	\$ 21,122 12%	\$ 19,562 13%
Earnings From Operations Operating Margin Return on Net Asseis	\$ 1,566 6.7% 30.7%	\$ 1.200 5.7% 25.5%	\$ 943 4.8% 19.8%
Net Earnings Net Margin	\$ 913 3.9%	\$ 705 3.3%	\$ 563 2 9%
Diluted Net Earnings per Share	\$ 2.79	\$ 210	S 1.59
GROWTH & PROFITS - BY SEGMENT (in millions)	2001	2060	- 62e
Revenues Earnings From Operations Operating Margin Return on Net Assets UNIPRISE Revenues Earnings From Operations Operating Margin Return on Net Assets SPECIALIZED CARE SERVICES Revenues Earnings From Operations Operating Margin Roturn on Net Assets INGENIX Revenues Earnings From Operations Operating Margin Return on Net Assets Earnings From Operations Operating Margin Return on Net Assets	\$ 20,494 \$ 944 4.6% 29.2% \$ 2,462 \$ 374 15.2% 37.2% \$ 1,254 \$ 214 17.1% 59.1% \$ 447 \$ 48 10.7% 7.5%	\$ 18,696 \$ 739 4.0% 24.6% \$ 2,140 \$ 289 13.5% 30.6% \$ 974 \$ 174 17 9% 68 8% \$ 375 \$ 32 8.5% 5.2%	\$ 17,581 \$ 578 3.3% 20.6% \$ 1.865 \$ 222 11.9% 22.6% \$ 726 \$ 128 17.6% 80.0* \$ 258 \$ 9.7% 5 4%
CAPITAL ITEMS (in millions, except per share data)	2001	2000	1999
Cash Flows From Operating Activities	\$ 1,844	\$ 1,521	\$ 1.189
Capital Expenditures	<b>\$ 425</b>	<b>\$</b> 245	\$ 196
Consideration Paul or Issued for Acquisitions	\$ 255	\$ 76	\$ 334
Debt to Total Capital	28.9%	24.7%	20.4%
Return on Shareholders' Equity	24.5%	19.0%	14.1%
Year-End Market Capitalization	\$ 21,841	\$ 19,470	\$ 8.896
Year-End Common Share Price	\$ 70.77	\$ 61.38	\$ 26.56

 $<sup>^{1}</sup>$  Excludes nonrecurring items in 1999 and 2000, as described in footnotes 1 and 2 at the bottom of page 22.

# INVESTOR INFORMATION

# Market Price of Common Stock

The following table shows the range of high and low sales prices for the company's stock as reported on the New York Stock Exchange for the calendar periods shown through February 25, 2002. These prices do not include commissions or fees associated with purchasing or selling this security

		High		_0W
2002				
First Quarter				
Through February 25	2002 \$	75.75	\$	68.52
•				
2001				
First Quarter	\$	64.36	\$	50.50
Second Quarter	S	67.40	\$	52.50
Third Quarter	\$	70.00	\$	58.80
Fourth Quarter	\$	72.80	S	62.42
2000				
First Quarter	\$	32.33	\$	23.18
Second Quarter	S	44.50	S	28.88
Third Quarter	S	50.56	S	39.06
Fourth Quarter		63.44	-	48.63
rount cautor		00.11	9	10.00

As of February 25, 2002, the company had 12,970 shareholders of record

# Account Questions

Our transfer agent, Wells Fargo, can help you with a variety of shareholder-related services, including:

Change of address
Lost stock certificates
Transfer of stock to another person
Additional administrative services

You can call our transfer agent at (800) 468-9716 or locally at (651) 450-4064.

You can write them at:

Wells Fargo Shareowner Services P.O. Box 64854 Saint Paul, Minnesota 55164-0854

Or you can e-mail our transfer agent at: stocktransfer@wellsfargo.com

#### Investor Relations

You can contact UnitedHealth Croup Investor Relations any time to order, without charge, financial documents, such as the annual report and Form 10-K. You can write to us at:

Investor Relations, MN008-T930 UnitedHealth Group P.O. Box 1459 Minneapolis. Minnesota 55440-1459

# Annual Meeting

We invite UnitedHealth Group shareholders to attend our annual meeting, which will be held on Wednesday, May 15, 2002, at 10 a.m., at UnitedHealth Group Center, 9900 Bren Road East, Minnetonka, Minnesota.

# Dividend Policy

UnitedHealth Group's dividend policy was established by its board of directors in August 1990. The policy requires the board to review the company's audited financial statements following the end of each fiscal year and decide whether it is advisable to declare a dividend on the outstanding shares of common stock.

Shareholders of record on April 2, 2001, received an annual dividend for 2001 of \$0.03 per share. On February 12, 2002, the board of directors approved an annual dividend for 2002 of \$0.03 per share. The dividend will be paid on April 17, 2002, to shareholders of record at the close of business on April 1, 2002.

# Stock Listing

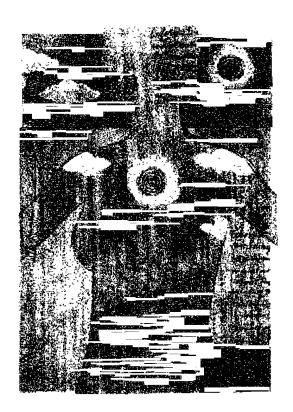
The company's common stock is traded on the New York Stock Exchange under the symbol UNH.

# Information Online

You can view our annual report and obtain more information about UnitedHealth Group and its businesses via the Internet at:

www.unitedhealthgroup.com

# UnitedHealth Group 2002 ANNUAL REPORT



We imagine health care as it could be.

Between the health care system that exists today and the health care system we imagine, there lies significant opportunity — to make health care services more accessible for all Americans, to improve the quality of care, and to help individuals take a more active role in their own health and well-being.

#### CHAIRMAN'S LETTER

or UnitedHealth Group, 2002 was another year of change and positive performance. The disciplined application of our business principles combined with the competencies that form the foundation of our businesses continue to manifest themselves in exceptional operating and financial results. Diversification designed to serve unique populations, facilitation of health care decisions and interventions, and support of consumers, physicians and employers with services that address their needs — all contributed to record performance.

Our enterprise had significant impact on advancing health and well-being for the varied constituencies we serve. We improved the quality, safety and cost-effectiveness of the health care decisions made by millions of people and thousands of physicians, other care providers and health care institutions. Our advances helped to increase efficiency and diminish waste in the administration of health care services. We introduced new products to respond to the needs of the people, employers and governments who purchase health care services. Importantly, we contributed to improving the quality of health care for at-risk population groups, such as the elderly, the poor and those burdened with chronic illness.

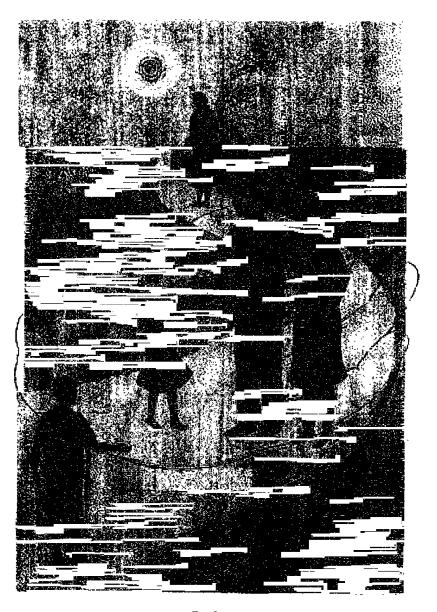
UnitedHealth Group realized significant growth, operating results and strategic advances in 2002;

- > We increased by more than 2.5 million the number of people we directly serve. UnitedHealth Group companies now contribute to improving the health of more than 48 million Americans.
- > Revenues rose to exceed \$25 billion.
- > Earnings per share grew 52 percent, to \$4.25 per share.
- > Cash flows from operations increased 31 percent, to \$2.4 billion.
- > The British government engaged us to assist the National Health Service in improving health outcomes for seniors in Great Britain.
- > Our skills and capacities to serve the underinsured were enhanced through the acquisition of AmeriChoice.
- > We accelerated our migration toward simple, integrated, paperless, Internet-based services, executing at a pace of more than 60 million annual Internet transactions.

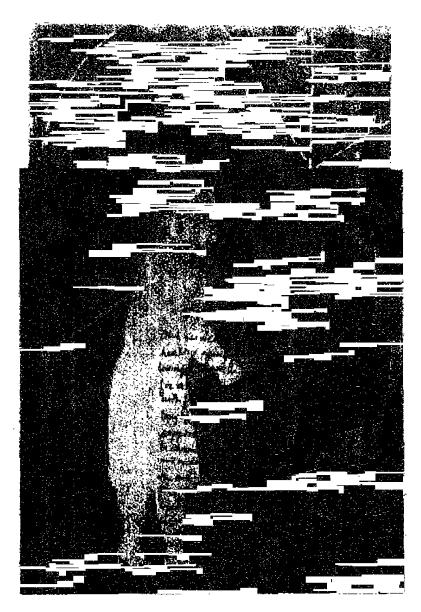
These accomplishments demonstrate the value we bring to a challenging marketplace and underscore the importance of making this critical part of our society simpler, more affordable, more accessible and more understandable. The American health care system needs to work better, and our competencies and values should help in that effort for years to come.

Beyond the business results we achieved and the contributions we have made, there is an even more compelling and larger opportunity for advancing health on behalf of our entire nation. A dominant emerging theme is the recognition that there is a limit to the economic resources any society can allocate to the health of its citizens. Critical choices are inevitably confronted when these limits are approached, whether by individuals, employers, charitable enterprises or governments. It is time to address this concern.

We have many reasons to be proud of the American health care system and the medical science associated with it, but we also have significant opportunity to make it better. Today our nation spends considerably more on health care than any other country, yet has failed to realize even near optimal results for these expenditures. Despite spending more than twice as much per capita as the average spending of the industrialized countries of the world, our overall health position was 37th among the 191 nations ranked by the World Health Organization. American life expectancy at birth and infant mortality are only average, and childhood immunization rates place us in the second quartile of this group. Within our country, there is immense disparity in health status among our states, and when the health status of sub-populations is examined, disturbing disparities continue to be experienced by millions of our citizens. The simple point is, America's dramatically higher health care spending and associated consumption does not consistently correlate with superior health outcomes for our society, does not result in access to care for millions of Americans and cannot be economically sustained without significant adverse consequences.



Pathways to essential health and well-being services for all Americans.



Improved quality of health care for every individual.

These aspects of our health care system are not acceptable, especially given our level of expenditure and the quality of our health care resources. If we as a nation are to address these challenges, fundamental questions must be raised and resolved:

- > Are we prepared and able to confront both the economic and moral questions concerning how much of our national wealth should be allocated to health, and how that allocation should be distributed throughout society?
- > Are we willing to examine the sources of waste and the contributors to sub-optimal health care outcomes, and use that information as the foundation for change and innovation?
- > Is it realistic to expect that our health care spending can be predominately based on scientific evidence rather than other less reliable factors and, if so, do we have an adequate scientific infrastructure to provide such information?
- > Can we work together across professional disciplines and political ideologies and through public, private and community partnerships to implement solutions?
- > Will we as individuals prepare ourselves to exercise personal restraint regarding utilization of limited and expensive health care resources, and demand the same of health care professionals, in order to realize enhanced and cost-effective health outcomes for ourselves, our families and our communities?

The questions are easy to frame. The answers are complex and the solutions are elusive — particularly in a society which, despite the urgency of the issue, seems reluctant to address underlying causes and seek resolution.

In health care, we use far too many resources, and we use them inefficiently. This waste of precious and limited health care resources may be our nation's most serious health issue. While the evidence of this situation is prominently reflected in the continuously and dramatically escalating cost of health care, it is tragically experienced by a growing number of Americans who cannot access or afford health care and as a result suffer from preventable disease and premature death.

Four themes were introduced in this space last year that I believe are fundamental to achieving a mational goal of affordable health care for all Americans. They were:

- > Advancing a process to define essential health benefits and their means of delivery.
- > Accepting evidence-based medicine as the standard for quality and appropriate health care.
- > Simplifying and standardizing the administrative components of health care services.
- > Providing better information and tools for consumers to facilitate their participation with physicians in making health care decisions.

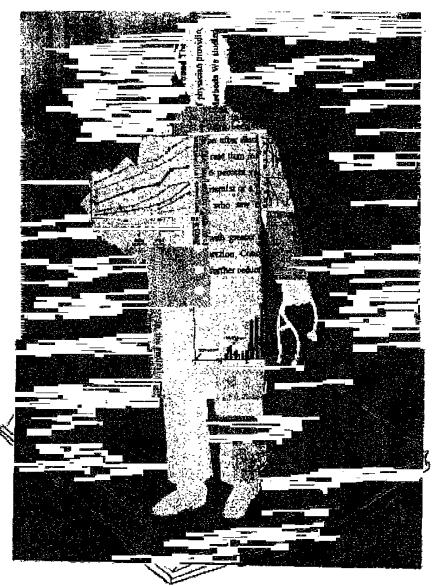
These themes focus on how the national assets of health care, both public and private, can be made more effective when given sustained leadership and sponsorship from legislative, caregiving and business communities. Our voice, along with others, stimulated considerable discussion, but real action has been lacking. Based on all we know today, these areas of focus are clearly correct and must continue to be advanced.

Even as we call for national initiatives, it is imperative that each of us remembers there are important actions we as individuals can and must take. This is particularly apparent when we consider that individual behavior and consumption patterns, similar to those associated with traditional consumer goods and services, are surpassing important factors such as new medical technology and aging as contributors to dramatically rising health costs. More Americans are choosing to consume more service units per capita — driving the crisis in affordable health care. And, as noted earlier, this is occurring without achieving optimal health for all.

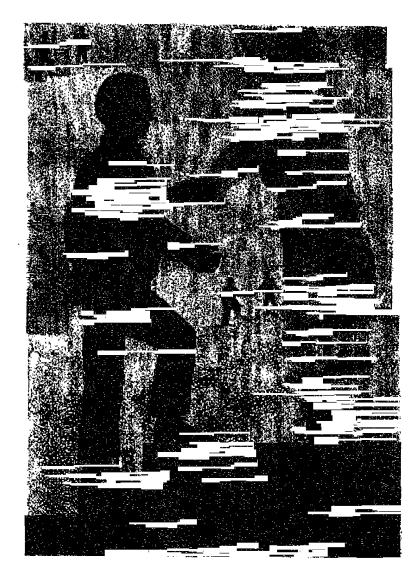
This implies that our use of resources is not sufficiently based on the best science and does not necessarily contribute to better health outcomes. Instead, too many of our health decisions — such as the use of some diagnostic tests, prescription drugs and medical procedures — are influenced by personal consumer demand and marketing and advertising pressures rather than scientifically proven appropriateness and cost-effectiveness. A striking level of our health-related consumption is totally discretionary. We must do better when dealing with such an important social issue and resource.

Each of us has a responsibility to use health care resources wisely. We must recognize that our personal and family health choices have consequences for all of us as a community of people, not just for each of us as individuals. And until individuals decide to become more effective and prudent users of health care resources, we will not achieve a more appropriate and rational use of these important social assets. Until then, our debates will center on where to find more money to fund the sub-optimal status quo; the consumer dialogue will continue to focus on the desire to have whatever we want whenever we want it, often regardless of efficacy or appropriateness; and any meaningful actions toward improvement will be obscured behind partisan interests:

It is difficult for most people to know how much care is "enough," and how much is too much." We have learned that when the costs of care are largely shielded from the individual by their employer's insurance policy, it is difficult for people to fully appreciate the resource and financial consequences of their decisions or those made on their behalf. This is often the case for the roughly 85 percent of American consumers for whom the vast majority of health costs are borne through employer or government-sponsored benefits. At the other end of the spectrum are those without any form of health care sponsorship. They are fully exposed to dramatic cost escalation and often lack the financial capacity to access even the most essential levels of care.



 $Decisions\ grounded\ in\ scientific\ data.$ 



Individual involvement in health care decisions.

An inevitable result of these circumstances is overuse, misuse and underuse of health care resources. Overuse and misuse are wasteful and increase the likelihood of harm and error. Underuse is equally detrimental since it is critical that individuals obtain the right care at the right time. All of these situations carry negative economic and health consequences.

We need to increase the individual's role in the appropriate use and preservation of health carc resources and, at the same time, help individual consumers optimize their decision processes. National leadership in this matter is critical. Several steps are appropriate:

- > Delivering sustained education programs for school, workplace and clinical settings that focus on appropriate health care use and resource conservation.
- > Encouraging development of information sources for consumers that are void of commercial bias.
- > Developing media channels that will effectively counterbalance through enlightened individual responsibility the intense commercial advertising that has stimulated often indiscriminate consumption of pharmaceuticals, diagnostic services and early-stage medical interventions.
- > Creating well-defined guidelines and incentives to establish evidence-based care as the appropriate care standard, with financial deterrents for excessive or non-evidence-based services.

Each of us individually bears a critical responsibility to use our finite health care resources intelligently. Only in that way will we be able to serve all those in need, without regard to financial status. This type of enlightened individual stewardship has been a cornerstone of many great societal advancements made in our country. Our successes in land and water management in earlier decades became a model to other nations for not only conservation but even restoration of natural resources. Individual commitment coordinated with legislative and industrial initiatives was at the core of those successes. Comparable success in such matters as the war on drugs, automobile safety and the availability and importance of higher education occurred because individuals became involved under governmental sponsorship to remedy problems of national interest and proportion. We must individually and collectively bring the same focused cooperation to healthcare.

By investing in technology, information tools, facilitation of care and basic operating disciplines, UnitedHealth Group is taking meaningful steps toward achieving a better health care system. We are addressing a vast, critically important and dynamic marketplace, and the outlook for our company is very positive. Continued focus on business execution and the needs of those we serve should provide us with ongoing growth and a position of increasing relevance in the area of health and well-being.



William W. McGuire, M.D.

As a research scientist, practicing physician, businessman and consumer, I have for more than 30 years experienced firsthand the wonders that health care can achieve, as well as the frustration and disappointment when it falls short of its potential. It is essential that we appreciate on an intellectual level the realities of the complex social, commercial and scientific issues that impact health care at the national level. It is vital that we continue to imagine at the level of the human spirit what can be done in our health care system, and what it means for all people when essential needs are optimally

addressed. The tools for change and improvement are available. We must use them as we address the critical need for change and the benefits that will result.

For our nation to advance with enduring solutions to better serve the needs of all Americans, we must retain the capacity to imagine health care as it could be, make the sacrifices needed and commit the energies required to make what we imagine become reality.

Sincerely,

William W. Mr. Comma

William W. McGuire, M.D. Chairman and Chief Executive Officer

United Health Group

Business Overview

# UnitedHealth Group

UnitedHealth Group, through its family of companies, serves more than 48 million Americans, providing the most diverse and comprehensive array of health and well-being services available from any single enterprise.

# STRATEGIC DIVERSIFICATION

UnitedHealth Group businesses extend across the broad expanse of health and well-being needs, demographic groups and geographic markets — which account for nearly \$1.5 trillion in annual expenditures in the United States — creating diverse business and growth potential across the health care marketplace.

# INNOVATION.

UnitedHealth Group confronts the challenges within the health care system by advancing innovation. This ranges from designing modular and component-based products that make it easy for customers to select offerings from a broad array of services, features and pricing options provided by UnitedHealth Group businesses, to creating clinical database services that heighten the quality and delivery of care by analyzing health care utilization patterns, treatment effectiveness, outcomes and costs.

# PERFORMANCE INFORMATION

UnitedHealth Group is the leader in developing and providing key knowledge and information tools and services to improve health care performance for employers, consumers, physicians and other health care providers, drug and medical device manufacturers, governments and health care intermediaries.

#### PRACTICAL TECHNOLOGY

Common operating systems and production and service platforms engage enterprise-wide databases to drive the highest quality, most consistent, lowest cost services in the marketplace. These capabilities integrate seamlessly with state-of-the-art Web-based and voice-based services to support a simple access and service experience for consumers, employers, brokers, physicians and other health care providers, who use our Web-based applications for more than 60 million transactions annually.

# FINANCIAL PERFORMANCE

(in millions)			2002		7001	· 7.	P. 222
Revenues		\$	25,020	\$	2001 23,454	: \$.	<b>2000</b> -21,122
Farnings From Operations		\$	2,186	\$	1,566	\$	1,200
Operating Margin	E → Section		8.7%		6.7 %		5.7%
Cash Flows From Operating A	ctivities	\$	2,423	\$	1,844	. \$	1.521
Return on Net Assets		· · ·	37.5%		30.7 %		25.5%
Return on Shareholders' Equi	ty <sup>1</sup>		33.0 %	-	24.5 %		19.0%

Excludes nonrecurring items in 2000, as described in footnote 1 at the bottom of page 19.

# Uniprise

Uniprise is the nation's leading provider of benefit delivery and service solutions for large, multi-location employers and insurers. Over the past five years, Uniprise has increased its market share by 75 percent and now serves more than 9.3 million individuals.

# COST-EFFECTIVE VALUE AND INNOVATION

Uniprise offers simple, cost-effective services that deliver the highest quality consumer experience, with broad yet economically sensitive access to medical care.

- > Integrated Choices. Employers and consumers can combine the best offerings from UnitedHealth Croup companies and services from outside sources to create comprehensive, customized benefits packages that are easy to manage and optimally address unique customer needs.
- > Advanced Technology. Uniprise offers a state-of-the-art service infrastructure that includes highly automated administrative services, integrated desktop service technology, electronic billing and eligibility services, advanced auto-adjudication of payments and easy-to-use Internet service portals for consumers, physicians and employers.
- > Exceptional Service and Quality Standards. Uniprise uses proven process management methods for measuring and improving performance to drive and sustain ever-higher levels of service and quality.
- > Consumer Empowerment and Choice. Uniprise is a market leader in consumer engagement, offering a comprehensive array of consumer-directed benefit plans. Web-based services, information resources and easy-to-use applications and tools to help consumers become better informed and make better choices.

# FINANCIAL PERFORMANCE

(in millions)	2002	2001:	2000
Revenues \$	2,713	\$ 2,462 \$	2,140
Earnings From Operations	509	\$ 374 \$	289
Operating Margin	18.8%	15.2 %	13.5%
Return on Net Assets	47:9 %	37.2%	-30.6%

# Health Care Services

Health Care Services includes the businesses of UnitedHealthcare, AmeriChoice and Ovations.

# UnitedHealthcare

UnitedHealthcare organizes health and well-being services for small and mid-sized employers, serving nearly 8 million people nationally and providing a comprehensive array of health benefit plans and services. UnitedHealthcare delivers differentiated value by combining the attributes of consumer-oriented products and services, progressive and effective care management services, the cost-effective buying power of 18 million UnitedHealth Group consumers and the simplest, highest quality, most technologically advanced customer service.

# CONSUMER-ORIENTED

UnitedHealthcare provides individuals with simple, convenient access to a broad and diverse spectrum of fully qualified physicians and health care providers. Since introducing open access consumer choice products to the market more than 15 years ago, UnitedHealthcare has steadily increased the depth and breadth of consumer participation in health care choices.

# COST-EFFECTIVE

As the largest commercial buyer of health care services in America, UnitedHealthcare leverages. UnitedHealth Group's aggregate purchasing power of more than 18 million individuals to offer quality health products and services at fair prices for both health care consumers and providers of care.

# CARE MANAGEMENT AND FACILITATION

UnitedHealthcare products and services have always embodied the most progressive, appropriate and effective clinical care management and facilitation capabilities, including health education and information resources, personal care facilitation and advocacy services, intensive case management, pharmacy and diagnostic testing services, targeted disease management programs, and care coordination and outreach programs. This array represents the most comprehensive set of quality-oriented clinical services available in the marketplace.

# EXCELLENCE IN SERVICE

UnitedHealthcare delivers leading, technologically advanced voice- and Internet-based services to the marketplace. National production and service centers linked with Internet service portals deliver seamless service to consumers, employers, health care providers, brokers and consultants. Enterprise wide quality processes and measures advance the most consistent and highest quality services available at market-leading levels of productivity.

# **AmeriChoice**

AmeriChoice facilitates the delivery of health care services for more than 1 million individuals eligible for state-sponsored health care programs through network-based benefit offerings and personal care management programs. AmeriChoice combines community-based networks with preventative services, outreach and intensive case management to serve the complex and unique needs of the individuals in these programs. Innovative outreach and education programs, some developed with the assistance of leading researchers and clinicians from the finest academic medical centers in the country, target the most frequent causes of severe health conditions—such as asthma, diabetes, sickle cell disease and high-risk pregnancies — affecting AmeriChoice beneficiaries.

# **Ovations**

Ovations is the largest business in the United States solely dedicated to the health and well-being needs of Americans age 50 and older. The company provides a variety of unique products and services:

#### OVATIONS HEALTH AND WELL-BEING SERVICES

Ovations offers the nation's largest retail pharmacy discount card program, pharmacy mail order services, and merchandise offerings of healthy living products targeted to individuals age 50 and older.

#### **EVERCARE**

Evercare provides individualized health care services for aging, vulnerable and chronically ill individuals across the full continuum of care settings. In 2002, Evercare entered into an agreement with the British government to apply its unique approach to improve senior care in the United Kingdom.

# SENIOR HEALTH BENEFITS.

Ovations offers supplemental health benefits uniquely fashioned to meet the needs of seniors and retirees. Ovations partners with AARP to provide supplemental health benefits — principally to Medicare eligible seniors — firmly establishing themselves as the nation's leading provider of these programs. Today, Ovations' Medicare supplement offerings through AARP are among the most competitive across the country, serving more than 3.6 million seniors.

# SENIOR AND RETIREE SERVICES

Ovations serves 225,000 individuals through Medicare+Choice products in 13 markets. In 2003, Ovations will also operate eight preferred provider plans for Medicare-eligible individuals as part of an innovation initiative with CMS (Centers for Medicare and Medicaid Services).

# FINANCIAL PERFORMANCE - HEALTH CARE SERVICES

(in millions)	2002 2001 2000
Revenues	<b>\$ 21,644 \$ 20,494 \$ 18,696</b>
Earnings From Operations	\$ 1,336 \$ 944 \$ 739
Operating Margin	6.2% 4.6% 4.0%
Return on Net Assets	<b>35.7%</b> 29.2% 24.6%

# **Specialized Care Services**

Specialized Care Services operates nine freestanding businesses, each of which has full product and service capabilities dedicated to serving a unique area of health care. Specialized Care Services' business units are aligned under four groups.

# SPECIALTY HEALTH AND WELL-BEING SERVICES

Specialized Care Services provides networks, benefits and services in the areas of behavioral health and complementary and alternative care.

- > United Behavioral Health is a market leader in the area of behavioral health benefits, employee assistance programs and life-event counseling and support services, serving approximately 22 million individuals nationwide.
- > ACN Group operates a comprehensive national network of chiropractic, physical therapy and alternative care services, serving approximately 18 million individuals.

# PERSONAL HEALTH SERVICES

Specialized Care Services businesses help individuals make more informed health care decisions and manage their health and health care more effectively.

- > United Resource Networks, which is nationally recognized for facilitating access to centers of excellence for transplantation services for approximately 41 million individuals on behalf of health plans, insurers, employers and health care payers, now offers oncology services and is introducing services in the areas of heart disease and neonatology.
- > Care Management provides disease and condition management, complex case management and care facilitation services.
- > Optum<sup>®</sup> offers personalized health and well-being information and decision support services to more than 23 million individuals through multiple communication and media channels.

# CONSUMER CARE SERVICES

Specialized Care Services businesses address the need to access services and products in unique areas associated with personal care.

> Dental Benefit Providers and Spectera provide comprehensive, network-based dental and vision services to more than 10 million individuals.

# GROUP INSURANÇE SERVICES

Specialized Care Services offers life and accident benefits to employers and makes benefit products and services available to self-insured employers through independent administrators.

# FINANCIAL PERFORMANCE

(in millions).	, * <sup>*</sup> -	2002	2001	2000
Revenues	\$	1,509	\$ 1,254	\$ 974
Earnings From Operations	\$	286	\$ 214	\$ 174
Operating Margin	, · · · ·	19.0%	17.1%	17.9%
Return on Net Assets	- · .	50.7%	59.1 %	68.8%

# Ingenix

Ingenix is an international leader in the field of health care data analysis and application. The company serves pharmaceutical companies, health insurers and payers, health care providers, large employers and government entities on a business-to-business basis with a broad portfolio of data tools, publications, and research and consulting services.

# HEALTH INTELLIGENCE

Ingenix Health Intelligence provides database and data management services, analytical and transactional software and services, publications and consulting services to more than 3,000 hospitals, 250,000 physicians, 2,000 payers and intermediaries, and 100 life science customers. Ingenix products focus on four key areas:

DATABASE SERVICES	CONSULTING SERVICES AND ANALYTICS	INFORMATION SOFTWARE	PUBLICATIONS AND ONLINE SERVICES
Comprehensive longitudinal and episodic clinical databases     Provider credentialing databases     Prescription drug	> Predictive modeling tools	<ul> <li>Physician data sharing and quality analysis and reporting</li> <li>Comprehensive transaction editing</li> <li>Physician billing services</li> </ul>	Coding and     reimbursement services     Benchmark databases     for hospital performance     Integrity and compliance     information services
<ul> <li>Prescription drug</li> <li>database services</li> </ul>	> Fraud and abuse services		

# PHARMACEUTICAL SERVICES

Ingenix Pharmaceutical Services serves as a quality research partner to more than 60 pharmaceutical and biotechnology enterprises. Ingenix Pharmaceutical Services offers services to support all steps in the drag and medical device development process, including clinical research services, epidemiology research, economic and therapeutic outcomes research, and customized marketing and medical education services, with clinical specialization in therapeutic areas including conditions affecting the central nervous system, infectious disease, endocrinology, cardiovascular disease and oncology.

# FINANCIAL PERFORMANCE

(in millions)	2002	;	2001		2000
Revenues \$	491	•	\$ 447	\$ -	375
Earnings From Operations \$	· 55 ·		\$ 48	\$	.32
Operating Margin	11.2%		10.7 %		8.5%
Return on Net Assets	7.6 %		7.5 %		∴5.2%

United Health Group
Financial Review

# FINANCIAL HIGHLIGHTS

(in millions, except per share data)	2002	For 2001	the Year Ended Dece 2000	mber 31, 1999	1998
CONSOLIDATED OPERATING RESULTS	2002	2001	2000	1555	1530
Revenues	\$ 25,020	\$ 23,454	\$ 21,122	\$ 19,562	\$ 17,355
Earnings (Loss) From Operations	\$ 2,186	\$ 1.566	\$ 1,200	\$ 943	\$ (42)
Net Earnings (Loss)	\$ 1,352	\$ 913	\$ 7361	\$ 5684	\$ (166)
Net Earnings (Loss) Applicable	, -,		<b>4</b> ,00	4 000	Ψ (100)
to Common Shareholders	\$ 1,352	\$ 913	\$ 736	\$ 568	\$ (214)
Return on Shareholders' Equity	33.0 %	24.5%	19.8 %	14.1 %	na"
Basic Net Earnings (Loss)					
per Common Share	\$ 4.46	\$ 2.92	\$ 2.27	\$ 1.63	\$ (0.56)
Diluted Net Earnings (Loss)					, (,
per Common Share	\$ 4.25	\$ 2.79	\$ 2.19	\$ 1.60 <sup>-</sup>	\$ (0.56)
Common Stock Dividends per Share	\$ 0.03	\$ 0.03	\$ 0.02	\$ 0.02	\$ 0.02
CONSOLIDATED CASH FLOWS					
FROM OPERATING ACTIVITIES	\$ 2,423	\$ 1,844	\$ 1,521	\$ 1,189	\$ 1,071
CONSOLIDATED FINANCIAL CONDITION (As of December 31)					
Cash and Investments	\$ 6,329	\$ 5,698	\$ 5,053	\$ 4,719	\$ 4,424
Total Assets	\$ 14,164	\$ 12,486	\$ 11,053	\$10,273	\$ 9,675
Debt	\$ 1,761	\$ 1,584	\$ 1,209	\$ 991	\$ 708
Shareholders' Equity	<b>\$ 4,428</b>	\$ 3.891	\$ 3,688	\$ 3,863	\$ 4,038
Debt-to-Total-Capital Ratio na – not applicable	28.5 %	28.9 %	24.7%	20.4 %	14.9 %

Financial Highlights and Results of Operations should be read together with the accompanying Consolidated Financial Statements and Notes.

<sup>1 2000</sup> results include a \$14 million net permanent tax benefit related to the contribution of UnitedHealth Capital investments to the United Health Foundation and a \$27 million gain (\$17 million after tax) related to a separate disposition of UnitedHealth Capital investments. Excluding these trems, 2000 net earnings and diluted net earnings per common share were \$705 million and \$2.10 per share, and return on shareholders' equity was 19.0%.

<sup>2 1999</sup> results include a net permanent tax benefit primarily related to the contribution of UnitedHealth Capital investments to the United Health Foundation. Excluding this benefit, net earnings and diluted net earnings per common share were \$563 million and \$1.59 per share.

Excluding the operational realignment and other charges of \$725 million, \$175 million of charges related to contract losses associated with certain Medicare markets and other increases to commercial and Medicare medical costs payable estimates, and the \$20 million convertible preferred stock redemption premium from 1998 results, earnings from operations and net earnings applicable to common shareholders would have been \$858 million and \$509 million, or \$1.31 diluted net earnings per common share, and return on shareholders' equity would have been \$1.9%.

#### RESULTS OF OPERATIONS

#### 2002 FINANCIAL PERFORMANCE HIGHLIGHTS

2002 was a record year for UnitedHealth Group as the company continued strong diversified growth across its business segments and realized diluted net earnings per common share of \$4.25, up 52% over 2001 on a reported basis and up 38% on a FAS No. 142 comparable reporting basis. Other financial performance highlights include:

- > Revenues of \$25.0 billion, a 7% increase over 2001.
- > Operating earnings of \$2.2 billion, up 40% over 2001 on a reported basis and up 32% on a FAS No. 142 comparable reporting basis.
- > Net earnings of nearly \$1.4 billion, a 48% increase over 2001 on a reported basis and a 35% increase on a FAS No. 142 comparable reporting basis.
- > Operating cash flows of more than \$2.4 billion, an increase of 31% over 2001.
- > Consolidated operating margin of 8.7%. up from 6.7% in 2001 on a reported basis and up from 7.1% on a FAS No. 142 comparable reporting basis, driven by operational and productivity improvements, improved margins on risk-based products, and a product mix shift from risk-based products to higher-margin, fee-based products.
- > Return on shareholders' equity of 33.0%, up from 24.5% in 2001 on a reported basis and up from 26.8% on a FAS No. 142 comparable reporting basis.

# 2002 RESULTS COMPARED TO 2001 RESULTS

# CONSOLIDATED FINANCIAL RESULTS

#### Revenues

Revenues are comprised of premium revenues from risk-based products; service revenues, which primarily include fees for management, administrative and consulting services; and investment and other income.

Premium revenues are derived from risk-based arrangements in which the premium is fixed, typically for a one-year period, and we assume the economic risk of funding health care services and related administrative costs. Service revenues consist primarily of fees derived from services performed for customers that self-insure the medical costs of their employees and their dependents. For both premium risk-based and fee-based customer arrangements, we provide coordination and facilitation of medical services, transaction processing, customer, consumer and care provider services, and access to contracted networks of physicians, hospitals and other health care professionals.

Consolidated revenues increased by approximately \$1.6 billion, or 7%, in 2002 to \$25.0 billion. Strong growth across our business segments was partially offset by the impact of targeted withdrawals from unprofitable risk-based arrangements with customers using multiple health benefit carriers, and withdrawals and benefit design changes in our Medicare+Choice product offering in certain markets.

<sup>1</sup> On January 1, 2002, United Health Group adopted Statement of Financial Accounting Standards (FAS) No. 142, "Goodwill and Other Intangible Assets," which eliminated the amortization of goodwill. To enhance analysis, the FAS No. 142 comparable reporting basis excludes \$93 million (\$89 million after tax effect) of goodwill amortization from 2001 results.

Following is a discussion of 2002 consolidated revenue trends for each revenue component.

Premium Revenues Consolidated premium revenues in 2002 totaled \$21.9 billion, an increase of \$1.2 billion, or 6%, compared with 2001.

Premium revenues from UnitedHealthcare's commercial risk-based products increased by approximately \$1.2 billion, or 10%, to \$12.9 billion in 2002. Average net premium rate increases exceeded 13% on UnitedHealthcare's renewing commercial risk-based business. This increase was partially offset by the effects of targeted withdrawals from unprofitable risk-based arrangements with customers using multiple health benefit carriers and a shift in product mix from risk-based to fee-based products. During 2002, the number of individuals served by UnitedHealthcare commercial risk-based products decreased by 180.000, or 3%.

Premium revenues from state-sponsored Medicaid and federally sponsored Medicare+Choice programs decreased by \$400 million, or 11%, to \$3.2 billion in 2002. Premium revenues from Medicare-Choice programs decreased by \$850 million to \$1.6 billion because of planned withdrawals and benefit design changes in certain markets, undertaken in response to insufficient Medicare program reimbursement rates. Premium revenues from Medicaid programs increased by \$450 million to \$1.6 billion in 2002. More than half of this increase, \$240 million, related to the acquisition of AmeriChoice on September 30, 2002.

The balance of premium revenue growth in 2002 included a \$240 million increase in Health Care Services' premium revenues driven by an increase in the number of individuals served by both Ovations' Medicare supplement products provided to AARP members and by its Evercare business. In addition, Specialized Care Services realized a \$140 million increase in premium revenues in 2002.

Service Revenues Service revenues in 2002 totaled \$2.9 billion, an increase of \$404 million, or 16%, over 2001. The increase in service revenues was driven primarily by aggregate growth of 11% in individuals served by Uniprise and UnitedHealthcare under fee-based arrangements. Uniprise and UnitedHealthcare service revenues grew by an aggregate of \$230 million during 2002. Additionally, revenues from Ovations' Pharmacy Services business, established in June 2001, increased by approximately \$110 million as it was in operation for the full year in 2002.

Investment and Other Income Investment and other income in 2002 totaled \$220 million, a decrease of \$61 million, or 22%, from 2001. Interest income decreased by \$32 million due to lower interest yields on investments in 2002 compared with 2001, partially offset by the impact of increased levels of cash and fixed-income investments. Net realized capital losses in 2002 were \$18 million, compared to net realized capital gains of \$11 million in 2001. The 2002 net realized capital losses were mainly due to sales of investments in debt securities of certain companies in the telecommunications industry and impairments recorded on certain UnitedHealth Capital equity investments. The losses were partially offset by capital gains on sales of investments in other debt securities.

#### Medical Costs

The combination of pricing, benefit designs, consumer health care utilization and comprehensive care facilitation efforts is reflected in the medical care ratio (medical costs as a percentage of premium revenues).

The consolidated medical care ratio decreased from 85.3% in 2001 to 83.0% in 2002. Excluding the AARP business; the medical care ratio decreased by 250 basis points from 83.9% in 2001 to 81.4% in 2002. Approximately 90 basis points of the medical care ratio decrease resulted from targeted withdrawals from unprofitable risk-based arrangements with commercial customers using multiple health benefit carriers and a shift in commercial customer mix, with a larger percentage of premium revenues derived from our small business customers. These employer groups typically have a lower medical care ratio, but carry higher operating costs than larger customers. Additionally, the impact of withdrawals and benefit design changes in certain Medicare markets pertaining to our Medicare+Choice offering improved the medical care ratio by approximately 90 basis points. The balance of the decrease in the medical care ratio was primarily driven by changes in product and business mix, care management activities and net premium rate increases that exceeded overall medical benefit cost increases.

On an absolute dollar basis, consolidated medical costs increased by \$548 million, or 3%, over 2001. This increase principally resulted from a rise in medical costs of approximately 12%, or \$2.1 billion, driven by the combination of medical cost inflation and increased health care consumption. Partially offsetting this increase, medical costs decreased by approximately \$1.4 billion resulting from net reductions in the number of people receiving benefits under our Medicare and commercial risk-based products. The balance of the decrease in medical costs was driven primarily by changes in benefit designs in certain Medicare markets.

# Operating Costs

The operating cost ratio (operating costs as a percentage of total revenues) was 17.5% in 2002, compared with 17.0% in 2001. Changes in productivity and revenue mix affect the operating cost ratio. Our fee-based products and services, which are growing at a faster rate than our premium-based products, have much higher operating cost ratios than our premium-based products. In addition, our Medicare business, which has relatively low operating costs as a percentage of revenues, has decreased in size relative to our overall operations. Using a revenue mix comparable to 2001, the 2002 operating cost ratio would have decreased by approximately 20 basis points, representing the equivalent of a \$50 million year-over-year reduction in operating costs. This decrease was principally driven by operating cost efficiencies derived from process improvements, technology deployment and cost management initiatives, primarily in the form of reduced labor and occupancy costs supporting our transaction processing and customer service, billing and enrollment functions. The impact of these efficiencies was partially offset by the incremental costs associated with the development, deployment, adoption and maintenance of new technology releases as well as increased business self-insurance costs during 2002.

On an absolute dollar basis, operating costs increased by \$408 million, or 10%, over 2001. This increase was driven by a 7% increase in total individuals served by Health Care Services and Uniprise during 2002, general operating cost inflation and the additional costs associated with acquired businesses.

<sup>1</sup> Premium revenues and medical costs from the AARP business were \$3.7 billion and \$3.4 billion, respectively, in 2002 and \$3.6 billion and \$3.3 billion, respectively, in 2001. Underwriting gains or losses related to the AARP business are recorded as an increase or decrease to a rate stabilization fund as described in Note 4 to the Consolidated Financial Statements.

# Depreciation and Amortization

Depreciation and amortization was \$255 million in 2002 and \$265 million in 2001. This decrease was due to \$93 million of amortization expense in 2001 recorded for goodwill, which is no longer amortized in 2002 pursuant to FAS No. 142. This decrease was largely offset by \$83 million of additional depreciation and amortization resulting from higher levels of equipment and capitalized software as a result of technology enhancements and business growth.

## Income Taxes

Our effective income tax rate was 35.5% in 2002 and 38.0% in 2001. The decrease was primarily due to the impact of non-tax-deductible goodwill amortization that is no longer amortized for financial reporting purposes, as required by FAS No. 142. Assuming FAS No. 142 was effective during 2001, the effective tax rate would have been approximately 36.0% during 2001.

#### **BUSINESS SEGMENTS**

The following summarizes the operating results of our business segments for the years ended December 31 (in millions):

REVENUES			Percent
	2002	2001	Change
Health Care Services	\$21,644	\$ 20,494	6%
Uniprise	2,713	2,462	10%
Specialized Care Services	1,509	1,254	20%
Ingenix	491	4-17	10%
Corporate and Eliminations	(1,337)	(1.203)	nm
Consolidated Revenues	\$25,020	S 23.454	7%_

	2	Percent	
2002		Adjusted	Crange:
\$ 1,336	\$ 944	\$ 982	36 <sup>0</sup> 7
509	374	402	27%
286	214	220	30%
55	<b>4</b> 8	69	(20%)
2,186	1,580	1.673	31%
-	(14)	(14)	nm
\$ 2,186	\$ 1,566	\$ J.659	32%
	\$ 1,336 509 286 55 2,186	2002         Reported           \$ 1,336         \$ 944           509         374           286         214           55         48           2,186         1,580           —         (14)	\$ 1,336 \$ 944 \$ 982 509 374 402 286 214 220 55 48 69 2,186 1,580 1.673 - (14) (14)

<sup>&</sup>lt;sup>1</sup> Adjusted to exclude \$93 million of autoritzation expense associated with goodwill. Pursuant to FAS No. 142, which we adopted effective January 1, 2002, goodwill is no longer autoritzed. Where applicable, the percent change is calculated comparing the <sup>2</sup>002 results to the 2001 "Adjusted" results.

#### Health Care Services

The Health Care Services segment consists of the UnitedHealthcare, Ovations and AmeriChoice businesses. UnitedHealthcare coordinates network-based health and well-being services on behalf of local employers and consumers. Ovations delivers health and well-being services for Americans age 50 and older. AmeriChoice facilitates and manages health care services for state Medicaid programs and their beneficiaries.

Health Care Services posted record revenues of \$21.6 billion in 2002, an increase of approximately \$1.2 billion, or 6%, over 2001. The increase in revenues primarily resulted from an increase of approximately \$1.2 billion in UnitedHealthcare's commercial premium revenues. This was driven by average net premium rate increases in excess of 13% on renewing commercial risk-based business, partially offset by the effects of targeted withdrawals from unprofitable risk-based arrangements with commercial customers using multiple health benefit carriers. Premium revenues from Medicaid programs increased by \$450 million in 2002, of which \$240 million related to the acquisition of AmeriChoice on September 30, 2002. Offsetting these increases, Medicare+Choice premium revenues decreased by \$850 million as a result of planned withdrawals and benefit design changes in certain markets in response to insufficient Medicare program reimbursement rates. The balance of Health Care Services' revenue growth in 2002 includes a \$240 million increase in Ovations' revenues driven by an increase in individuals served by both its Medicare supplement products provided to AARP members and its Evercare business, and a \$140 million increase in revenues from its Pharmacy Services business, established in June 2001.

Health Care Services realized earnings from operations of \$1.3 billion in 2002, an increase of \$392 million, or 42%, over 2001 on a reported basis, and an increase of \$354 million, or 36%, over 2001 on a FAS No. 142 comparable reporting basis. This increase primarily resulted from improved gross margins on UnitedHealthcare's commercial risk-based products, revenue growth and operating cost efficiencies derived from process improvements, technology deployment and cost management initiatives, principally in the form of reduced labor and occupancy costs supporting transaction processing and customer service, billing and enrollment functions. Health Care Services' operating margin increased to 6.2% in 2002 from 4.6% on a reported basis and from 4.8% on a FAS No. 142 comparable reporting basis in 2001. This increase was driven by a combination of an improved medical care ratio, productivity improvements and a shift in product mix from risk-based products to higher-margin, fee-based products.

UnitedHealthcare's commercial medical care ratio decreased by 230 basis points from 84.1% in 2001 to 81.8% in 2002. Approximately 130 basis points of the commercial medical care ratio decrease resulted from targeted withdrawals from unprofitable risk-based arrangements with commercial customers using multiple carriers and a shift in commercial customer mix, with a larger percentage of premium revenues derived from small business customers. These employer groups typically have a lower medical care ratio, but carry higher operating costs than larger customers. The balance of the decrease in the commercial medical care ratio was primarily driven by changes in product mix, care management activities and net premium rate increases that exceeded overall medical benefit cost increases.

The number of individuals served by UnitedHealthcare's commercial products increased by 230.000, or 3%, during 2002. This included an increase of 410,000, or 18%, in the number of individuals served with fee-based products, driven by new customer relationships and customers converting from risk-based products during 2002. This increase was partially offset by a decrease of 180,000, or 3%, in individuals served by risk-based products, driven by customers converting to self-funded, fee-based arrangements and UnitedHealthcare's targeted withdrawal of risk-based product offerings from unprofitable arrangements with customers using multiple health benefit carriers.

UnitedHealthcare's year-over-year Medicare enrollment decreased 35% because of market withdrawals and benefit design changes. These actions were taken in response to insufficient Medicare program reimbursement rates in specific counties and were intended to preserve profit margins and better position the Medicare program for long-term success. UnitedHealthcare will continue to evaluate Medicare markets and, where necessary, take actions that may result in further withdrawals of Medicare product offerings or reductions in enrollment, when and as permitted by its contracts with CMS (Centers for Medicare and Medicaid Services).

UnitedHealthcare's year-over-year Medicaid enrollment increased by 390,000, largely due to the acquisition of AmeriChoice on September 30, 2002, which served approximately 360,000 individuals as of the acquisition date.

The following table summarizes individuals served, by major market segment and funding arrangement, as of December 31':

(in thousands)	2002	2001
Commercial		
Risk-Based	5,070	5,250
Fee-Based	2,715	2,305
Total Commercial	7,785	7,555
Medicare	225	345
Medicaid	1,030	640
Total Government Programs	1,255	985
Total	9,040	8,540

<sup>1</sup> Excludes individuals served by Ovarions' Medicare supplement products provided to AARP members.

# Uniprise

Uniprise provides health and well-being access and services, business-to-business transaction processing services, consumer connectivity and technology support services to large employers and health plans. Uniprise revenues were \$2.7 billion in 2002, up \$251 million, or 10%, over 2001. This increase was driven primarily by an 8% increase in Uniprise's customer base. Uniprise served 8.6 million individuals as of December 31, 2002, and 8.0 million individuals as of December 31, 2001.

Uniprise earnings from operations grew by \$135 million, or 36%, over 2001 on a reported basis, and by \$107 million, or 27%, over 2001 on a FAS No. 142 comparable reporting basis. Operating margin improved to 18.8% in 2002 from 15.2% on a reported basis and from 16.3% on a FAS No. 142 comparable reporting basis in 2001. Uniprise has expanded its operating margin through operating cost efficiencies derived from process improvements, technology deployment and cost management initiatives, primarily in the form of reduced labor and occupancy costs supporting its transaction processing and customer service, billing and enrollment functions. Additionally, Uniprise's infrastructure can be scaled efficiently, allowing its business to grow revenues at a proportionately higher rate than the associated growth in operating expenses.

## Specialized Care Services

Specialized Care Services is a portfolio of health and well-being businesses, each serving a specialized market need with a unique blend of benefits, networks, services and resources. Specialized Care Services had revenues of \$1.5 billion in 2002, an increase of \$255 million, or 20%, over 2001. This increase was principally driven by \$140 million of revenue growth from Spectera, its vision care benefits business acquired in October 2001, and an increase in the number of individuals served by United Behavioral Health, its mental health benefits business, and Dental Benefit Providers, its dental services business.

Earnings from operations reached \$286 million in 2002, an increase over 2001 of \$72 million, or 34%, on a reported basis and \$66 million, or 30%, on a FAS No. 142 comparable reporting basis. Specialized Care Services' operating margin increased to 19.0% in 2002, up from 17.1% on a reported basis and from 17.5% on a FAS No. 142 comparable reporting basis in 2001. This increase was driven by operational and productivity improvements, partially offset by a shifting business mix toward higher revenue, lower margin products. With the continuing growth of this segment, we have begun consolidating production and service operations to a segment-wide service and production infrastructure to improve service quality and consistency and enhance productivity and efficiency.

# Ingenix

Ingenix is an international leader in the field of health care data analysis and application, serving pharmaceutical companies, health insurers and other payers, health care providers, large employers and governments. Revenues were \$491 million in 2002, an increase of \$44 million, or 10%, over 2001. This was the result of strong new business growth in the health information business and revenues from acquired businesses, partially offset by reduced revenues in the pharmaceutical services business.

Earnings from operations were \$55 million. up \$7 million, or 15%, over 2001 on a reported basis, and down \$14 million, or 20%, from 2001 on a FAS No. 142 comparable reporting basis. Operating margin was 11.2% in 2002, up from 10.7% in 2001 on a reported basis, and down from 15.4% on a FAS No. 142 comparable reporting basis. The reduction in earnings from operations and operating margin on a FAS No. 142 comparable reporting basis was due to cancellations and delays of certain clinical research trials by pharmaceutical clients, which have been affected by weak industry-specific conditions. This reduction was partially offset by strong business growth and slightly expanding margins in the health information business.

## Corporate

Corporate includes costs for certain company-wide process improvement initiatives, net expenses from charitable contributions to the United Health Foundation and eliminations of intersegment transactions. The decrease in corporate expenses of \$14 million from 2001 to 2002 reflects the completion during 2001 of certain company-wide process improvement initiatives.

### 2001 RESULTS COMPARED TO 2000 RESULTS

### CONSOLIDATED FINANCIAL RESULTS

#### Revenues

Consolidated revenues increased by 11% in 2001 to \$23.5 billion. Strong and balanced growth across all business segments was partially offset by the impact of planned exits in 2000 from UnitedHealthcare's commercial businesses in the Pacific Coast region, the withdrawal of its Medicare+Choice product offering from targeted counties and the closure of Uniprise's Medicare fiscal intermediary operations. Following is a discussion of 2001 consolidated revenue trends for each revenue component.

Premium Revenues Consolidated premium revenues in 2001 totaled \$20.7 billion, an increase of \$1.8 billion, or 9%, compared with 2000. This increase was primarily driven by average net premium rate increases in excess of 13% on UnitedHealthcare's renewing commercial risk-based business, partially offset by the impact of business and market exits.

Service Revenues Service revenues in 2001 totaled \$2.5 billion, an increase of \$526 million, or 27%, over 2000. The overall increase in service revenues was primarily the result of 20% growth in Uniprise's customer base, growth in UnitedHealthcare's fee-based business, and establishment of the Ovations Pharmacy Services business in June 2001.

Investment and Other Income Investment and other income in 2001 totaled \$281 million, an increase of \$49 million over 2000. Lower interest yields on investments in 2001 compared with 2000 were substantially offset by the impact of increased levels of cash and fixed-income investments in 2001. Net realized capital gains in 2001 were \$11 million, compared to net realized capital losses of \$34 million in 2000.

## Medical Costs

The consolidated medical care ratio decreased from 85.4% in 2000 to 85.3% in 2001. Excluding the AARP business, the medical care ratio was 83.9% in both 2000 and 2001, as net premium rate increases were generally well matched with increases in medical benefit costs.

On an absolute dollar basis, medical costs increased \$1.5 billion, or 9%, over 2000. The increase was driven by medical cost inflation, increased health care consumption patterns, benefit changes and product mix changes.

### Operating Costs

The operating cost ratio was 17.0% in 2001, compared with 16.7% in 2000. Changes in productivity and revenue mix affect the operating cost ratio. For many of our faster-growing businesses, most direct costs of revenue are included in operating costs, not medical costs. Using a revenue mix comparable to 2000, the 2001 operating cost ratio would have decreased by approximately 70 basis points. This decrease was principally driven by operating cost efficiencies derived from process improvements, technology deployment and cost management initiatives, primarily in the form of reduced labor and occupancy costs supporting our transaction processing and customer service, billing and enrollment functions. Additionally, because our infrastructure can be scaled efficiently, we have been able to grow revenues at a proportionately higher rate than associated expenses.

On an absolute dollar basis, operating costs increased by \$459 million, or 13%, over 2000. This increase reflected additional costs to support product and technology development initiatives, general operating cost inflation and the 10% increase in individuals served by Health Care Services and Uniprise in 2001. These increases were partially offset by productivity and technology improvements discussed above.

# Depreciation and Amortization

Depreciation and amortization was \$265 million in 2001 and \$247 million in 2000. This increase resulted primarily from higher levels of capital expenditures to support business growth and technology enhancements, as well as the amortization of goodwill and other intangible assets related to acquisitions.

#### Income Taxes

The 2000 income tax provision includes nonrecurring tax benefits primarily related to the contribution of UnitedHealth Capital investments to the United Health Foundation. Excluding nonrecurring tax benefits, our effective income tax rate was 38.0% in 2001 and 37.5% in 2000.

# **BUSINESS SEGMENTS**

The following summarizes the operating results of our business segments for the years ended December 31 (in millions):

REVENUES			Percent
	2001	2000	Сһапда
Health Care Services	\$ 20,494	\$ 18,696	10%
Uniprise	2,462	2,140	15%
Specialized Care Services	1,254	974	29%
Ingenix	447	375	19%
Corporate and Eliminations	(1,203)	(1,063)	nm
_ Consolidated Revenues	\$ 23,454	\$ 21,122	11%
EARNINGS FROM OPERATIONS			Percent
	2001	2000	Change
Health Care Services	\$ 9 <del>44</del>	\$ 739	28%
Uniprise	374	289	29%
Specialized Care Services	214	17 <del>4</del>	23%
Ingenix	48	32	50%
Total Operating Segments	1,580	1,234	28%
Corporate	(14)	(34)	nm
Consolidated Earnings From Operations	\$ 1.566	\$ 1,200	31%
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## Health Care Services

The Health Care Services segment posted revenues of \$20.5 billion in 2001, an increase of \$1.8 billion, or 10%, over 2000. This increase resulted from average net premium rate increases in excess of 13% on UnitedHealthcare's renewing commercial risk-based business, partially offset by the impact of UnitedHealthcare's targeted exits in 2000 from its commercial businesses in the Pacific Coast region and the withdrawal of its Medicare+Choice product offering from certain counties.

Health Care Services had earnings from operations of \$944 million in 2001, an increase of \$205 million, or 28%, over 2000. This increase resulted from revenue growth and stable gross margins on UnitedHealthcare's commercial business and operating cost efficiencies from process improvement, technology deployment and cost management initiatives. Health Care Services' operating margin increased to 4.6% in 2001 from 4.0% in 2000, driven by the productivity improvements described above and a shift in product mix from risk-based products to higher-margin, fee-based products.

UnitedHealthcare's commercial medical care ratio remained flat compared with 2000 at 84.1%, as net premium rate increases were generally well matched with increases in overall medical benefit costs.

The number of individuals served by UnitedHealthcare commercial products increased by 135,000, or 2%, during 2001. This included an increase of 380,000 in the number of individuals served with fee-based products as a result of customers converting from risk-based products and new customer relationships established in 2001. This increase was partially offset by a 245,000 decrease in individuals served by risk-based products, driven by customers converting to self-funded, fee-based arrangements and UnitedHealthcare's targeted withdrawal of its risk-based product offerings from unprofitable arrangements with customers using multiple health benefit carriers.

UnitedHealthcare's year-over-year Medicare enrollment decreased by 15% in 2001 because of targeted market withdrawals and benefit design changes in response to insufficient Medicare program reimbursement rates.

The following table summarizes individuals served, by major market segment and funding arrangement, as of December 31:

(in thousands)	2001	2003
Commercial		
Risk-Based	5,250	5,495
Fee-Based	2,305	1,925
Total Commercial	7.555	7,420
Medicare	345	405
Medicaid	640	550
Total Government Programs	985	955
Total	8,540	8.375

<sup>&</sup>lt;sup>1</sup> Excludes individuals served by Ovations' Medicare supplement products provided to AARP members.

# Uniprise

Uniprise revenues were \$2.5 billion in 2001, up \$322 million, or 15%, over 2000. This increase was driven primarily by continued growth in Uniprise's customer base, which had a 20% increase in the number of individuals served. Uniprise served 8.0 million individuals as of December 31, 2001, and 6.7 million individuals as of December 31, 2000. Uniprise's earnings from operations grew by \$85 million, or 29%, over 2000 as a result of the increased revenues. The operating margin improved to 15.2% in 2001 from 13.5% in 2000. As revenues have increased, Uniprise has expanded its operating margin by improving productivity through process improvement initiatives and deployment of technology. Additionally, Uniprise's infrastructure can be scaled efficiently, allowing its business to grow revenues at a proportionately higher rate than the associated growth in operating expenses.

# Specialized Care Services

Specialized Care Services had revenues of \$1.3 billion in 2001, an increase of \$280 million, or 29%, over 2000. This increase was driven primarily by an increase in the number of individuals served by United Behavioral Health, and an increase in specialized services purchased by customers of Uniprise and UnitedHealthcare. Earnings from operations reached \$214 million in 2001, an increase of 23% over 2000. Specialized Care Services' operating margin decreased from 17.9% in 2000 to 17.1% in 2001. The decrease in operating margin was the result of a shifting product mix, with a larger percentage of revenues coming from businesses with higher revenues per individual served and lower percentage operating margins.

#### Ingenix

Revenues were \$447 million in 2001, an increase of \$72 million, or 19%, over 2000. This increase reflected growth in both the health information and pharmaceutical services businesses. Earnings from operations were \$48 million, up 50% over 2000. Operating margin increased to 10.7% in 2001 from 8.5% in 2000, principally as a result of revenue growth and improved productivity.

# Corporate

The decrease of \$20 million in 2001 corporate expenses reflected lower company-wide process improvement expenses in 2001 compared to 2000, as certain process improvement initiatives were completed in 2001.

# FINANCIAL CONDITION AND LIQUIDITY AT DECEMBER 31, 2002

## LIQUIDITY

We manage our cash, investments and capital structure so we are able to meet the short- and long-term obligations of our business while maintaining financial flexibility and liquidity. We forecast, analyze and monitor our cash flows to enable prudent investment and financing within the confines of our financial strategy, such as our self-imposed limit of 30% on our debt-to-total-capital ratio (calculated as the sum of commercial paper and debt divided by the sum of commercial paper, debt and shareholders' equity).

A majority of the assets held by our regulated subsidiaries are in the form of cash, cash equivalents and investments. After considering expected cash flows from operating activities, we generally invest monies of regulated subsidiaries that exceed our near-term obligations in longer term, investment grade marketable debt securities, to improve our overall investment return. Factors we consider in making these investment decisions include our board of directors' approved investment policy, regulatory limitations, return objectives, tax implications, risk tolerance and maturity dates. Our long-term investments are also available for sale to meet short-term liquidity and other needs. Monies in excess of the capital needs of our regulated entities are paid to their non-regulated parent companies, typically in the form of dividends, for general corporate use, when and as permitted by applicable regulations.

Our non-regulated businesses also generate significant cash from operations. Also, we issue long-term debt and commercial paper with staggered maturity dates and have available credit facilities. These additional sources of liquidity allow us to maintain further operating and financial flexibility. Because of this flexibility, we typically maintain low cash and investment balances in our non-regulated companies. Cash in these entities is generally used to reinvest in our businesses in the form of capital expenditures, to expand the depth and breadth of our services through business acquisitions, and to repurchase shares of our common stock, depending on market conditions.

Cash generated from operating activities, our primary source of liquidity, is principally from net earnings, excluding depreciation and amortization. As a result, any future decline in our profitability may have a negative impact on our liquidity. The availability of financing in the form of debt or equity is influenced by many factors, including our profitability, operating cash flows, debt levels, debt ratings, contractual restrictions, regulatory requirements and market conditions. We believe that our strategies and actions toward maintaining financial flexibility mitigate much of this risk.

#### CASH AND INVESTMENTS

During 2002, we generated cash from operations of more than \$2.4 billion, an increase of \$579 million, or 31%, over 2001. The increase in operating cash flows primarily resulted from an increase of \$429 million in net earnings excluding depreciation and amortization expense.

We maintained a strong financial condition and liquidity position, with cash and investments of \$6.3 billion at December 31, 2002. Total cash and investments increased by \$631 million since December 31, 2001, primarily resulting from strong cash flows from operations and acquisitions requiring maintenance of incremental regulated capital, partially offset by common stock repurchases, capital expenditures and business acquisitions.

As further described under "Regulatory Capital and Dividend Restrictions," many of our subsidiaries are subject to various government regulations that restrict the timing and amount of dividends and other distributions that may be paid to their parent companies. At December 31, 2002, approximately \$280 million of our \$6.3 billion of cash and investments was held by non-regulated subsidiaries. Of this amount, approximately \$130 million was available for general corporate use, including acquisitions and share repurchases. The remaining \$150 million consists primarily of public and non-public equity securities held by UnitedHealth Capital, our investment capital business.

# FINANCING AND INVESTING ACTIVITIES

We use commercial paper and debt to maintain adequate operating and financial flexibility. As of December 31, 2002 and 2001, we had commercial paper and debt outstanding of \$1.8 billion and \$1.6 billion, respectively. Our debt-to-total-capital ratio was 28.5% and 28.9% as of December 31, 2002 and 2001, respectively. We expect to maintain our debt-to-total-capital ratio between 25% and 30%. Within this range, we believe our cost of capital and return on shareholders' equity are optimized, while maintaining a prudent level of leverage and liquidity.

In January 2002, we issued \$400 million of 5.2% fixed-rate notes due January 2007. We used proceeds from this borrowing to repay commercial paper and for general corporate purposes, including working capital, capital expenditures, business acquisitions and share repurchases. When we issued these notes, we entered into short-term LIBOR-based (London Interbank Offered Rate) variable interest rate swap agreements for \$200 million of the above notes. At December 31, 2002, the rate used to accrue interest expense on these swaps was approximately 1.4%.

As of December 31, 2002, we had outstanding commercial paper of \$461 million and current maturities of long-term debt of \$350 million. We intend to issue new term debt or commercial paper during 2003, as necessary, to finance the repayment of these obligations. As noted below, we believe that we have sufficient flexibility to obtain additional financing in the public or private markets.

We have credit arrangements for \$900 million that support our commercial paper program. These credit arrangements include a \$450 million revolving facility that expires in July 2005, and a \$450 million, 364-day facility that expires in July 2003. We also have the capacity to issue approximately \$200 million of extendible commercial notes (ECNs). As of December 31, 2002 and 2001, we had no amounts outstanding under our credit facilities or ECNs.

Our debt arrangements and credit facilities contain various covenants, the most restrictive of which require us to maintain a debt-to-total-capital ratio below 45% and to exceed specified minimum interest coverage levels. We are in compliance with the requirements of all debt covenants.

Our senior debt is rated "A" by Standard & Poor's (S&P) and Fitch, and "A3" by Moody's. Our commercial paper and ECN programs are rated "A-1" by S&P, "F-1" by Fitch, and "P-2" by Moody's. Consistent with our intention of maintaining our senior debt ratings in the "A" range, we intend to maintain our debt-to-total-capital ratio at 30% or less. A significant downgrade in our debt and commercial paper ratings would likely adversely affect our borrowing capacity and costs.

The remaining issuing capacity of all securities covered by our S-3 shelf registration statement (for common stock, preferred stock, debt securities and other securities) is \$450 million. We may publicly offer such securities from time to time at prices and terms to be determined at the time of offering. We also have an S-4 acquisition shelf registration statement under which we have remaining issuing capacity of approximately 5.6 million shares of our common stock in connection with acquisition activities.

During 2002 and 2001, we invested \$419 million and \$425 million, respectively, in property, equipment, capitalized software and information technology hardware. These investments were made to support business growth, operational and cost efficiencies, service improvements and technology enhancements.

Effective September 30, 2002, we acquired AmeriChoice Corporation (AmeriChoice), a leading organization engaged in facilitating health care benefits and services for Medicaid beneficiaries in the states of New York, New Jersey and Pennsylvania. We are integrating our existing Medicaid business with AmeriChoice, creating efficiencies from the consolidation of health care provider networks, technology platforms and operations. We issued 5.3 million shares of our common stock with a fair value of approximately \$480 million in exchange for 93.5% of the outstanding AmeriChoice common stock. We issued vested stock options with a fair value of approximately \$15 million in exchange for outstanding stock options held by AmeriChoice employees, and we paid cash of approximately \$82 million, mainly to pay off existing AmeriChoice debt. We will acquire the remaining minority interest after five years at a value based on a multiple of the earnings of the combined Medicaid business. We have the option to acquire the minority interest at an earlier date if specific events occur, such as the termination or resignation of key AmeriChoice employees.

Under our board of directors' authorization, we maintain a common stock repurchase program. Repurchases may be made from time to time at prevailing prices, subject to certain restrictions on volume, pricing and timing. During 2002, we repurchased 22.3 million shares at an aggregate cost of approximately \$1.8 billion. As of December 31, 2002, we had board of directors' authorization to purchase up to an additional 16.5 million shares of our common stock.

As a limited part of our share repurchase activities, we had entered into purchase agreements with an independent third party to purchase shares of our common stock at various times and prices. In May 2002, the share purchase agreements were terminated, and we elected to receive shares of our common stock from the third party as settlement consideration. The favorable settlement amount was not material and was recorded through additional paid-in capital. We currently have no outstanding purchase agreements with respect to our common stock.

On February 11, 2003, the board of directors approved an annual dividend for 2003 of \$0.03 per share. The dividend will be paid on April 17, 2003, to shareholders of record at the close of business on April 1, 2003.

### CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table summarizes future obligations due by period as of December 31, 2002, under our debt agreements, lease obligations and other commercial commitments (in millions):

	2003	2004 to 2005	2006 to 2007	Thereafter	Total
Debt and Commercial Paper <sup>1</sup>	\$ 811	\$ 550	\$ 400	\$ -	\$1,761
Operating Leases	109	179	142	190	620
Unconditional Purchase Obligations <sup>2</sup>	40	44	17	_	101
Total Contractual Obligations	\$ 960	\$ 773	\$ 559	\$ 190	\$ 2,482

Debt payments could be accelerated upon violation of debt covenants. We believe the likelihood of a debt covenant violation is remote.

Currently, we do not have any other material definitive commitments that require cash resources; however, we continually evaluate opportunities to expand our operations. This includes internal development of new products, programs and technology applications and may include acquisitions.

# AARP

In January 1998, we initiated a 10-year contract to provide insurance products and services to members of AARP. Under the terms of the contract, we are compensated for transaction processing and other services as well as for assuming underwriting risk. We are also engaged in product development activities to complement the insurance offerings under this program. Premium revenues from our portion of the AARP insurance offerings were approximately \$3.7 billion in 2002, \$3.6 billion in 2001 and \$3.5 billion in 2000.

The underwriting gains or losses related to the AARP business are recorded as an increase or decrease to a rate stabilization fund (RSF), which is reported in Other Policy Liabilities in the accompanying Consolidated Balance Sheets. The company is at risk for underwriting losses to the extent cumulative net losses exceed the balance in the RSF. We may recover RSF deficits, if any, from gains in future contract periods. To date, we have not been required to fund any underwriting deficits. We believe the RSF balance is sufficient to cover potential future underwriting or other risks associated with the contract.

The effects of changes in balance sheet amounts associated with the AARP program accrue to AARP policyholders through the RSF balance. Accordingly, we do not include the effect of such changes in our Consolidated Statements of Cash Flows.

<sup>&</sup>lt;sup>9</sup> Amounts represent minimum purchase commitments under existing service agreements.

# REGULATORY CAPITAL AND DIVIDEND RESTRICTIONS

We conduct a significant portion of our operations through companies that are subject to standards established by the National Association of Insurance Commissioners (NAIC). These standards, among other things, require these subsidiaries to maintain specified levels of statutory capital, as defined by each state, and restrict the timing and amount of dividends and other distributions that may be paid to their parent companies. Generally, the amount of dividend distributions that may be paid by a regulated subsidiary, without prior approval by state regulatory authorities, is limited based on the entity's level of statutory net income and statutory capital and surplus. The agencies that assess our creditworthiness also consider capital adequacy levels when establishing our debt ratings. Consistent with our intent to maintain our senior debt ratings in the "A" range, we maintain an aggregate statutory capital level for our regulated subsidiaries that is significantly higher than the minimum level regulators require. As of December 31, 2002, our regulated subsidiaries had aggregate statutory capital of approximately \$2.5 billion, which is significantly more than the aggregate minimum regulatory requirements.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting policies are those policies that require management to make the most challenging, subjective or complex judgments, often because they must estimate the effects of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgments and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions. We believe our most critical accounting policies are those described below. For a detailed discussion of these and other accounting policies, see Note 2 to the Consolidated Financial Statements.

# REVENUES

Revenues are principally derived from health care insurance premiums. We recognize premium revenues in the period eligible individuals are entitled to receive health care services. Customers are typically billed monthly at a contracted rate per eligible person multiplied by the total number of people eligible to receive services, as recorded in our records. Employer groups generally provide us with changes to their eligible population one month in arrears. Each billing includes an adjustment for prior month changes in eligibility status that were not reflected in our previous billing. We estimate and adjust the current period's revenues and accounts receivable accordingly. Our estimates are based on historical trends, premiums billed, the level of contract renewal activity and other relevant information. We also estimate the amount of uncollectible receivables each period and record valuation allowances based on historical collection rates, the age of unpaid amounts, and information about the creditworthiness of the customers. We revise estimates of revenue adjustments and uncollectible accounts receivable each period, and record changes in the period they become known.

# MEDICAL COSTS

A substantial portion of our medical costs payable is based on estimates, which include estimates for the costs of health care services eligible individuals have received under risk-based arrangements but for which claims have not yet been submitted, and estimates for the costs of claims we have received but have not yet processed. We develop medical costs payable estimates using consistently applied actuarial methods based on historical claim submission and payment data, cost trends, utilization of health care services, contracted service rates, customer and product mix, and other relevant factors.

Over time, as actual claim costs and more current information become available, our estimated liability for medical costs payable develops either favorably, with revised payable estimates less than originally reported medical costs payable, or unfavorably, with revised payable estimates more than originally reported medical costs payable. We include the impacts of changes in estimates in the operating results of the period in which we identify the changes.

Each period, our operating results include the effects of revisions in estimates related to all prior periods, based on actual claims processed and paid. Changes in estimates may relate to the prior fiscal year or to prior quarterly reporting periods within the same fiscal year. Changes in estimates for prior quarterly reporting periods within the same fiscal year have no impact on total medical costs reported for that fiscal year. In contrast, changes in medical costs payable estimates for prior fiscal years that are identified in the current year affect total medical costs reported for the current fiscal year.

Our medical costs payable estimates as of December 31, 2001, 2000 and 1999 each developed favorably in the subsequent fiscal year by approximately \$70 million, \$30 million and \$15 million, respectively, representing earnings from operations of 3.2% in 2002, 1.9% in 2001 and 1.3% in 2000. Favorable development of prior year medical costs payable estimates represented 0.5%, 0.2%, and 0.1% of medical costs in 2002, 2001 and 2000, respectively, and 2.7%, 1.2%, and 0.7% of medical costs payable as of December 31, 2001, 2000, and 1999, respectively. Management does not believe the changes in medical costs payable estimates described above were significant in relation to earnings from operations, medical costs or medical costs payable. Amounts related to the AARP business were excluded from these calculations since the underwriting gains and losses associated with this business are recorded as an increase or decrease to a rate stabilization fund. For additional information regarding the components of the change in medical costs payable for the years ended December 31, 2002, 2001 and 2000, see Note 7 of the consolidated financial statements.

Our estinate of medical costs payable represents management's best estimate of the company's liability for unpaid medical costs as of December 31, 2002, developed using consistently applied actuarial methods. Management believes the amount of medical costs payable is reasonable and adequate to cover the company's liability for unpaid claims as of December 31, 2002; however, actual claim payments may differ from established estimates. Assuming a hypothetical 1% difference between our December 31, 2002 estimates of medical costs payable and actual costs payable, excluding the AARP business, 2002 earnings from operations would increase or decrease by approximately \$28 million and basic and diluted net earnings per common share would increase or decrease by approximately \$0.06 per share.

### INVESTMENTS

As of December 31, 2002, we had approximately \$5.2 billion of investments, primarily held in marketable debt securities. Our investments are principally classified as available for sale and are recorded at fair value. We exclude unrealized investment gains and losses from earnings and report them together as a separate component in shareholders' equity. We continually monitor the difference between the cost and fair value of our investments. If any of our investments experience a decline in fair value that is determined to be other than temporary, based on analysis of relevant factors, we record a realized loss in our Consolidated Statement of Operations. Management judgment is involved in evaluating whether a decline in an investment's fair value is other than temporary. New information and the passage of time can change these judgments. We revise impairment judgments when new information becomes known, and record any resulting impairment charges at that time. We manage our investment portfolio to limit our exposure to any one issuer or industry, and largely limit our investments to U.S. Government and Agency securities, state and municipal securities, and corporate debt obligations that are investment grade.

#### LONG-LIVED ASSETS

As of December 31, 2002 and 2001, we had long-lived assets, including goodwill, other intangible assets, and property, equipment and capitalized software, of \$4.4 billion and \$3.6 billion, respectively. We review these assets for events and changes in circumstances that would indicate we might not recover their carrying value. In assessing the recoverability of our long-lived assets, we must make assumptions regarding estimated future utility and cash flows and other internal and external factors to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for these assets.

# CONTINGENT LIABILITIES

Because of the nature of our businesses, we are routinely involved in various disputes, legal proceedings and governmental audits and investigations. We record liabilities for our estimates of the probable costs resulting from these matters. Our estimates are developed in consultation with outside legal counsel and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies and considering our insurance coverages, if any, for such matters. We do not believe any matters currently threatened or pending will have a material adverse effect on our consolidated financial position or results of operations. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in our estimates or assumptions.

### INFLATION

The current national health care cost inflation rate significantly exceeds the general inflation rate. We use various strategies to lessen the effects of health care cost inflation. This includes setting commercial premiums based on anticipated health care costs and coordinating care with physicians and other health care providers. Through contracts with physicians and other health care providers, we emphasize preventive health care, appropriate use of health care services consistent with clinical performance standards, education and closing gaps in care.

We believe our strategies to mitigate the impact of health care cost inflation on our operating results have been and will continue to be successful. However, other factors including competitive pressures, new health care and pharmaceutical product introductions, demands from physicians and other health care providers and consumers, major epidemics, and applicable regulations may affect our ability to control the impact of health care cost inflation. Because of the narrow operating margins of our risk-based products, changes in medical cost trends that were not anticipated in establishing premium rates can create significant changes in our financial results.

#### LEGAL MATTERS

Because of the nature of our businesses, we are routinely party to a variety of legal actions related to the design, management and offerings of our services. We record liabilities for our estimates of probable costs resulting from these matters. These matters include, but are not limited to: claims relating to health care benefits coverage; medical malpractice actions; contract disputes; and claims related to disclosure of certain business practices. Following the events of September 11, 2001, the cost of business insurance coverage increased significantly. As a result, we have increased the amount of risk that we self-insure, particularly with respect to routine matters incidental to our business.

In 1999, a number of class action lawsuits were filed against us and virtually all major entities in the health benefits business. The suits are purported class actions on behalf of certain customers and physicians for alleged breaches of federal statutes, including the Employee Retirement Income Security Act of 1974, as amended (ERISA), and the Racketeer Influenced Corrupt Organization Act (RICO).

Although the results of pending litigation are always uncertain, we do not believe the results of any such actions, currently threatened or pending, including those described above, will. individually or in aggregate, have a material adverse effect on our consolidated financial position or results of operations.

# QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of changes in value of a financial instrument caused by changes in interest rates and equity prices.

Approximately \$6.2 billion of our cash and investments at December 31, 2002 was invested in fixed income securities. We manage our investment portfolio within risk parameters approved by our board of directors; however, our fixed income securities are subject to the effects of market fluctuations in interest rates. Assuming a hypothetical and immediate 1% increase or decrease in interest rates applicable to our fixed income portfolio at December 31, 2002, the fair value of our fixed income investments would decrease or increase by approximately \$205 million.

At December 31, 2002, our UnitedHealth Capital business had approximately \$150 million of equity investments primarily in various public and non-public companies concentrated in the areas of health care delivery and related information technologies. Market conditions that affect the value of health care or technology stocks will likewise impact the value of our equity portfolio.

# CONCENTRATIONS OF CREDIT RISK

Investments in financial instruments such as marketable securities and accounts receivable may subject UnitedHealth Group to concentrations of credit risk. Our investments in marketable securities are managed under an investment policy authorized by our board of directors. This policy limits the amounts that may be invested in any one issuer and generally limits our investments to U.S. Government and Agency securities, state and municipal securities and corporate debt obligations that are investment grade. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of employer groups that constitute our customer base. As of December 31, 2002, there were no significant concentrations of credit risk.

### CAUTIONARY STATEMENT REGARDING "FORWARD-LOOKING" STATEMENTS

The statements contained in Results of Operations and other sections of this annual report to shareholders include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (PSLRA). When used in this report, the words and phrases "believes," "anticipates," "intends," "will likely result," "estimates," "projects" and similar expressions are intended to identify such forward-looking statements. Any of these forward-looking statements involve risks and uncertainties that may cause the company's actual results to differ materially from the results discussed in the forward-looking statements. Statements that are not strictly historical are "forward-looking" and known and unknown risks may cause actual results and corporate developments to differ materially from those expected. Except to the extent otherwise required by federal securities laws, we do not undertake to address or update each statement in future filings or communications regarding our business or results, and do not undertake to address how any of these factors may have caused results to differ from discussions or information contained in previous filings or communications. In addition, any of the matters discussed in this annual report may have affected our past as well as current forward-looking statements about future results. Any or all forward-looking statements in this report and in any other public statements we make may turn out to be inaccurate or false. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties.

Many factors discussed below will be important in determining future results. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially from those expressed in our prior communications. Factors that could cause results and developments to differ materially from expectations include, without limitation, (a) increases in medical costs that are higher than we anticipated in establishing our premium rates, including increased consumption of or costs of medical services; (b) increases in costs associated with increased litigation, legislative activity and government regulation and review of our industry, including costs associated with compliance with proposed legislation related to the Patients' Bill of Rights, e-commerce activities and consumer privacy issues; (c) heightened competition as a result of new cutrants into our market, mergers and acquisitions of health care companies and suppliers, and expansion of physician or practice management companies; (d) failure to maintain effective and efficient information systems, which could result in the loss of existing customers, difficulties in attracting new customers, difficulties in determining medical costs estimates and establishing appropriate pricing, customer and physician and health care provider disputes, regulatory violations, increases in operating costs or other adverse consequences; (e) events that may negatively affect our contract with AARP, including any failure on our part to service AARP customers in an effective manner and any adverse events that directly affect AARP or its business partners; (f) medical cost increases or benefit changes associated with our remaining Medicare+Choice operations; (g) significant deterioration in customer retention; (h) violations of debt covenants or a significant downgrade in our debt ratings; (i) our ability to execute contracts on favorable terms with physicians, hospitals and other service providers, and (i) significant deterioration in economic conditions, including the effects of acts of terrorism, particularly bioterrorism, or major epidemics. A further list and description of these risks, uncertainties and other matters can be found in our annual report on Form 10-K for the year ended December 31, 2002, and in our periodic reports on Forms 10-Q and 8-K.

# CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended December 31.					
(in millions, except per share data)		2002		1002		2000
REVENUES	•	91.000	à.	00.000	۰	10.000
Premiums	<b>&gt;</b>	21,906	Ъ.	20,683	5	18,926
Services		2,894		2,490		1,964
Investment and Other Income		220		281		232
Total Revenues		25,020	-	23,454		21,122
MEDICAL AND OPERATING COSTS						
Medical Costs		18,192		17,644		16,155
Operating Costs		4,387		3,979		3,520
Depreciation and Amortization		255		265		247
Total Medical and Operating Costs		22,834		21.888		19,922
EARNINGS FROM OPERATIONS		2,186		1,566		1,200
Gain on Disposition of UnitedHealth Capital Investments		_		_		27
Interest Expense		(90)		(94)		(72)
EARNINGS BEFORE INCOME TAXES		2,096		1,472		1,155
Provision for Income Taxes		(744)		(559)		(419)
Tronblok for Income Takes		(* 11)		(555)		(113)
NET EARNINGS	\$	1,352	\$	913	\$	736
BASIC NET EARNINGS PER COMMON SHARE	\$	4.46	\$	2.92	\$	2.27
	,		•		•	
DILUTED NET EARNINGS PER COMMON SHARE	\$	4.25	\$	2.79	\$	2.19
BASIC WEIGHTED-AVERAGE NUMBER OF COMMON SHARES						
OUTSTANDING		303.4		312.4		324.2
DILUTIVE EFFECT OF OUTSTANDING STOCK OPTIONS		14.7		14.4		12.3
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING						
ASSUMING DILUTION		318.1		326.8		336.5

# CONSOLIDATED BALANCE SHEETS

	As of <b>2002</b>	December 3	
in millions, except share and ye share data)	2002		2001
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 1,130	\$	1,540
Short-Term Investments	701		270
Accounts Receivable, net of allowances of \$132 and \$127	835		856
Assets Under Management	2,069		1,903
Deferred Income Taxes	389		316
Other Current Assets	50		61
Total Current Assets	5,174		4,946
Long-Term Investments	4,498		3,888
Property, Equipment and Capitalized Software, net of accumulated			
depreciation and amortization of \$456 and \$314	955		847
Goodwill	3,363		2,723
Other Intangible Assets, net of accumulated amortization of \$31 and \$23	122		27
Other Assets	52		55
TOTAL ASSETS	\$ 14,164	\$	12,486
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Medical Costs Payable	\$ 3,741	\$	3.460
Accounts Payable and Accrued Liabilities	1,459		1,209
Other Policy Liabilities	1,781		1,595
Commercial Paper and Current Maturities of Long-Term Debt	811		684
Unearned Premiums	587		548
Total Current Liabilities	8,379		7,491
Long-Term Debt, less current maturities	950		900
Deferred Income Taxes and Other Liabilities	407		204
Commitments and Contingencies (Note 12)			
Shareholders' Equity			
Common Stock, \$0.01 par value - 1,500,000.000 shares authorized;			
299,458,000 and 308,626,000 shares outstanding	3		5
Additional Paid-In Capital	173		39
Retained Earnings	4,104		3,803
Accumulated Other Comprehensive Income:			-,
Net Unrealized Gains on Investments, net of tax effects	148		14
TOTAL SHAREHOLDERS' EQUITY	4,428		3,891
	, .		-,

# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in millions)	Comm Shares	non Stoc Ama	:k ourt	Additional Paid-In Capital	Retained Earnings	Ga	nrealized Insign Stments	Total Shareholders' Equity	Comprehensive Income
BALANCE AT DECEMBER 31, 1999	335	\$	3	\$ 250	\$ 3,445	\$	165	\$ 3,863	
Issuances of Common Stock,									
and related tax benefits	13		_	349	_		_	349	
Common Stock Repurchases	(31)		-	(599)	(581)		_	(1,180)	
Comprehensive Income									
Net Earnings	-			-	736		-	736	<b>\$</b> 736
Other Comprehensive Income Adjustments									
Change in Net Unrealized Gains									
on Investments, net of tax effects	_		_	_	_		(75)	(75)	(75)
Comprehensive Income									\$ 661
Common Stock Dividend	_		_	_	(ŏ)		_	(5)	
BALANCE AT DECEMBER 31, 2000	317		3		3.595		90	3,688	
Issuances of Common Stock.	317		J		3.333		30	3,000	
and related tax benefits	11		_	474			_	474	
Common Stock Repurchases	(19)		_	(435)	(694)		_	(1,129)	
Comprehensive Income	(13)			(400)	(031)			(1,140)	
Net Earnings	_		_	_	913			913	\$ 913
Other Comprehensive Income Adjustments					313			313	Ψ 515
Change in Net Unrealized Gains									
on Investments, net of tax effects	_		_	_	_		(46)	(46)	(46)
Comprehensive Income							(10)	(10)	\$ 867
Common Stock Dividend	_		_	_	(9)		_	(9)	ψ 007
Common Stock Dividend	_				(5)		_	(3)	
BALANCE AT DECEMBER 31, 2001	309		3	39	3,805		44	3,891	
Issuances of Common Stock,									
and related tax benefits	12		-	905	_		_	905	
Common Stock Repurchases	(22)			(771)	(1,044)		_	(1,815)	
Comprehensive Income									
Net Earnings	-		_	_	1,352		-	1,352	\$ 1,352
Other Comprehensive Income Adjustments									
Change in Net Unrealized Gains									
on Investments, net of tax effects	-		-	-	_		104	104	104
Comprehensive Income									<b>\$ 1,456</b>
Common Stock Dividend	-		-	_	(9)		-	(9)	
BALANCE AT DECEMBER 31, 2002	299	\$	3	\$ 173	\$ 4,104	\$	148	\$4,428	

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)	For d <b>2002</b>	ie Veai	Ended Decer 2001	nber 31	2000
OPERATING ACTIVITIES					
Net Earnings	\$ 1,352	\$	913	\$	736
Noncash Items					
Depreciation and Amortization	255		265		247
Deferred Income Taxes and Other	154		40		73
Net Change in Other Operating Items, net of effects					
from acquisitions, sales of subsidiaries and changes					
in AARP balances					
Accounts Receivable and Other Current Assets	83		7		26
Medical Costs Payable	74		156		288
Accounts Payable and Accrued Liabilities	423		280		7 <u>5</u>
Other Policy Liabilities	70		131		87
Unearned Premiums	12		52		(11)
CASH FLOWS FROM OPERATING ACTIVITIES	2,423		1,844		1,521
INVESTING ACTIVITIES					
Cash Paid for Acquisitions, net of cash assumed and other effects	(302)		(92)		(76)
Purchases of Property, Equipment and Capitalized Software	(419)		(425)		(245)
Purchases of Investments	(3,246)		(2,088)		(3,022)
Maturities and Sales of Investments	2,576		1.467		2,375
CASH FLOWS USED FOR INVESTING ACTIVITIES	(1,391)		(1,138)		(968)
FINANCING ACTIVITIES					
Proceeds from Common Stock Issuances	205		178		228
Proceeds from (Payments of) Commercial Paper, net	(223)		275		(182)
Proceeds from Issuance of Long-Term Debt	400		250		400
Payments for Retirement of Long-Term Debt	_		(150)		-
Common Stock Repurchases	(1,815)		(1,129)		(1,180)
Dividends Paid	(9)		(9)		(5)
CASH FLOWS USED FOR FINANCING ACTIVITIES	(1,442)		(585)		(739)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(410)		121		(186)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,540	-	1,419		1,605
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 1,130	\$	1,540	\$	1,419
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES Common Stock Issued for Acquisitions	\$ 567	\$	163	\$	_

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1 DESCRIPTION OF BUSINESS

UnitedHealth Group Incorporated (also referred to as "UnitedHealth Group," "the company," "we," "us." and "our") is a national leader to forming and operating orderly, efficient markets for the exchange of high quality health and well-being services. Through strategically aligned, market-defined businesses, we offer health care access, benefits and related administrative, technology and information services designed to enable, facilitate and advance optimal health care.

# 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

# BASIS OF PRESENTATION

We have prepared the consolidated financial statements according to accounting principles generally accepted in the United States of America and have included the accounts of UnitedHealth Group and its subsidiaries. We have eliminated all significant intercompany balances and transactions.

### USE OF ESTIMATES

These consolidated financial statements include certain amounts that are based on our best estimates and judgments. These estimates require us to apply complex assumptions and judgments, often because we must make estimates about the effects of matters that are inherently uncertain and will change in subsequent periods. The most significant estimates relate to medical costs, medical costs payable, revenues, contingent liabilities and asset valuations, allowances and impairments. We adjust these estimates each period, as more current information becomes available. The impact of any changes in estimates is included in the determination of earnings in the period in which the estimate is adjusted.

### REVENUES

Premium revenues are derived from risk-based arrangements in which the premium is fixed, typically for a one-year period, and we assume the economic risk of funding health care services and related administrative costs. We recognize premium revenues in the period in which eligible individuals are entitled to receive health care services. We record premium payments we receive from our customers prior to such period as uncarned premiums.

Service revenues are primarily derived from services performed for customers that self-insure the medical costs of their employees and their dependents. Under service fee contracts, we recognize revenue in the period the related services are performed based upon the fee charged to the customer. The customers retain the risk of financing medical benefits for their employees and their employees' dependents, and we administer the payment of customer funds to physicians and other health care providers from customer-funded bank accounts. Because we do not have the obligation for funding the medical expenses, nor do we have responsibility for delivering the medical care, we do not recognize gross revenue and medical costs for these contracts in our consolidated financial statements.

## MEDICAL COSTS AND MEDICAL COSTS PAYABLE

Medical costs include claims paid, claims processed but not yet paid, estimates for claims received but not yet processed, and estimates for the costs of health care services eligible individuals have received under risk-based arrangements, but for which claims have not yet been submitted.

We develop our estimates of medical costs payable using actuarial methods based upon historical claim submission and payment data, cost trends, utilization of health care services, contracted service rates, customer and product mix, and other relevant factors. The estimates may change as actuarial methods change or as underlying historical data upon which estimates are based are revised with more current information. We did not change actuarial methods during 2002, 2001 and 2000.

We reflect adjustments to medical costs payable estimates in the operating results of the period in which we identify the changes in estimates. Each period, our operating results reflect revisions in estimates related to all prior periods, based on actual claims processed and paid. Management believes the amount of medical costs payable is reasonable and adequate to cover the company's liability for unpaid claims as of December 31, 2002; however, actual claim payments may differ from established estimates.

# CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents are highly liquid investments with an original maturity of three months or less. The fair value of cash and cash equivalents approximates their carrying value because of the short maturity of the instruments. Investments with a maturity of less than one year are classified as short-term. We may sell investments classified as long-term before their maturity to fund working capital or for other purposes. Because of regulatory requirements, certain investments are included in long-term investments regardless of their maturity date. We classify these investments as held to maturity and report them at amortized cost. All other investments are classified as available for sale and reported at fair value based on quoted market prices.

We exclude unrealized gains and losses on investments available for sale from earnings and report it as a separate component of shareholders' equity, net of income tax effects. We continually monitor the difference between the cost and estimated fair value of our investments. If any of our investments experiences a decline in value that is determined to be other than temporary, based on analysis of relevant factors, we record a realized loss in Investment and Other Income in our Consolidated Statement of Operations. To calculate realized gains and losses on the sale of investments, we use the specific cost of each investment sold.

#### ASSETS UNDER MANAGEMENT

We administer certain aspects of AARP's insurance program (see Note 4). Pursuant to our agreement, AARP assets are managed separately from our general investment portfolio and are used to pay costs associated with the AARP program. These assets are invested at our discretion, within investment guidelines approved by AARP, At December 31, 2002, the assets were invested in nurketable debt securities. We do not guarantee any rates of investment return on these investments and, upon transfer of the AARP contract to another entity, we would transfer cash equal in amount to the fair value of these investments at the date of transfer to that entity. Because the purpose of these assets is to fund the medical costs payable, the rate stabilization fund liabilities and other related liabilities associated with the AARP contract, assets under management are classified as current assets, consistent with the classification of these liabilities. Interest earnings and realized investment gains and losses on these assets accrue to AARP policyholders through the rate stabilization fund. As such, they are not included in our carnings. Interest income and realized gains and losses related to assets under management are recorded as an increase to the AARP rate stabilization fund and were \$102 million and \$113 million in 2002 and 2001, respectively. Assets under management are reported at their fair market value, and unrealized gains and losses are included directly in the rate stabilization fund associated with the AARP program. As of December 31, 2002 and 2001, the AARP investment portfolio and rate stabilization fund included net unrealized gains of \$117 million and \$56 million, respectively.

# PROPERTY, EQUIPMENT AND CAPITALIZED SOFTWARE

Property, equipment and capitalized software is stated at cost, net of accumulated depreciation and amortization. Capitalized software consists of certain costs incurred in the development of internal-use software, including external direct costs of materials and services and payroll costs of employees devoted to specific software development.

We calculate depreciation and amortization using the straight-line method over the estimated useful lives of the assets. The useful lives for property, equipment and capitalized software are: from three to seven years for furniture, fixtures and equipment; from \$5 to 40 years for buildings; the shorter of the useful life or remaining lease term for leasehold improvements; and from three to nine years for capitalized software. The weighted-average useful life of property, equipment and capitalized software at December 31, 2002, was approximately five years.

The net book value of property and equipment was \$490 million and \$421 million as of December 31, 2002 and 2001, respectively. The net book value of capitalized software was \$465 million and \$426 million as of December 31, 2002 and 2001, respectively

# GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the amount by which the purchase price and transaction costs of businesses we have acquired exceed the estimated fair value of the net tangible assets and separately identifiable intangible assets of these businesses. We adopted FAS No. 142, "Goodwill and Other Intangible Assets," on January 1, 2002. Under FAS No. 142, goodwill and intangible assets with indefinite useful lives are not amortized, but are tested at least annually for impairment. Intangible assets with discrete useful lives are amortized on a straight-line basis over their estimated useful lives.

### LONG-LIVED ASSETS

We review long-lived assets, including property, equipment, capitalized software and intangible assets, for events or changes in circumstances that would indicate we might not recover their carrying value. We consider many factors, including estimated future utility and cash flows associated with the assets, to make this decision. An impairment charge is recorded for the amount by which the asset carrying value exceeds the estimated fair value. We record assets held for sale at the lower of their carrying amount, or fair value, less any costs for the final sculement.

# OTHER POLICY LIABILITIES

Other policy liabilities include the rate stabilization fund associated with the AARP program (see Note 4) and customer balances related to experience-rated insurance products. Customer balances represent excess customer payments and deposit accounts under experience-rated contracts. At the customer's option, these balances may be refunded or used to pay future premiums or claims under eligible contracts.

# INCOME TAXES

Deferred income tax assets and liabilities are recognized for the differences between the financial and income tax reporting bases of assets and liabilities based on enacted tax rates and laws. The deferred income tax provision or benefit generally reflects the net change in deferred income tax assets and liabilities during the year, excluding any deferred income tax assets and liabilities of acquired businesses. The current income tax provision reflects the tax consequences of revenues and expenses currently taxable or deductible on various income tax returns for the year reported.

# CUSTOMER ACQUISITION COSTS

Costs related to the acquisition and renewal of customer contracts, including sales commissions, enrollment materials and customer set-up costs, are charged to expense as incurred. Our insurance contracts typically have a one-year term and may be cancelled upon 30 days notice by either the company or the customer.

### STOCK-BASED COMPENSATION

We account for activity under our stock-based employee compensation plans under the recognition and measurement principles of APB (Accounting Principles Board) Opinion No. 25, "Accounting for Stock Issued to Employees," Accordingly, we do not recognize compensation expense in connection with employee stock option grants because we grant stock options at exercise prices not less than the fair value of our common stock on the date of grant.

The following table shows the effect on net earnings and earnings per share had we applied the fair value expense recognition provisions of FAS No. 123, "Accounting for Stock-Based Compensation." to stock-based employee compensation.

	For the Year Ended December					
(in millions, except per abuse data)		2002		2901		2000
NET EARNINGS						
As Reported	\$	1,352	\$	913	\$	736
Compensation Expense, net of tax effect		(101)		(82)		(76)
Pro Forma	\$	1,251	\$	837	\$	660
BASIC NET EARNINGS PER COMMON SHARE					•	
As Reported	\$	4.46	\$	2.92	\$	2.27
Pro Forma	\$	4.12	\$	2.66	\$	2.04
DILUTED NET EARNINGS PER COMMON SHARE						
As Reported	\$	4.25	\$	2.79	S	2.19
Pro Forma	\$	3.93	\$	2.54	s	1.96
WEIGHTED-AVERAGE FAIR VALUE PER SHARE OF						
OPTIONS GRANTED	\$	28	S	23	\$	14

Information on our stock-based compensation plans and data used to calculate compensation expense in the table above are described in more detail in Note 10.

# NET EARNINGS PER COMMON SHARE

We compute basic net earnings per common share by dividing net carnings by the weighted-average number of common shares outstanding during the period. We determine diluted net earnings per common share using the weighted-average number of common shares outstanding during the period, adjusted for potentially dilutive shares that might be issued upon exercise of common stock options.

# DERIVATIVE FINANCIAL INSTRUMENTS

As part of our risk management strategy, we enter into interest rate swap agreements to manage our exposure to interest rate risk. The differential between fixed and variable rates to be paid or received is accrued and recognized over the life of the agreements as an adjustment to interest expense in the Consolidated Statements of Operations. Our existing interest rate swap agreements convert a portion of our interest rate exposure from a fixed to a variable rate and are accounted for as fair value hedges. Additional information on our existing interest rate swap agreements is included in Note 8.

# RECENTLY ISSUED ACCOUNTING STANDARDS

On January 1, 2003, we adopted FAS No. 143, "Accounting for Asset Retirement Obligations," which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. Its adoption did not have a material impact on our consolidated financial position or results of operations.

In June 2002, the Financial Accounting Standards Board (FASB) issued FAS No. 146. "Accounting for Costs Associated with Exit or Disposal Activities." FAS No. 146 requires companies to recognize a liability for costs associated with exit or disposal activities when they are incurred, rather than at the date of a commitment to an exit or disposal plan. FAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002. The adoption of this statement on January 1, 2003 did not have a material impact on our consolidated financial position or results of operations.

In December 2002, the FASB issued FAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment of FASB Statement No. 123." FAS No. 148 provides alternative transition methods for companies that make a voluntary change to the fair-value-based method of accounting for stock-based employee compensation. In addition, FAS No. 148 amends the disclosure requirements of FAS No. 123 to require disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. We have adopted the disclosure provisions of FAS No. 148 in these consolidated financial statements, and its adoption had no impact on our consolidated financial position or results of operations.

### RECLASSIFICATIONS

Certain 2000 and 2001 amounts in the consolidated financial statements have been reclassified to conform to the 2002 presentation. These reclassifications have no effect on not earnings or shareholders' equity as previously reported.

### 3 ACQUISITIONS

Effective September 30, 2002, we acquired AmeriChoice Corporation (AmeriChoice), a leading organization engaged in facilitating health care benefits and services for Medicaid beneficiaries in the states of New York. New Jersey and Pennsylvania. We are integrating our existing Medicaid business with AmeriChoice within the Health Care Services reporting segment, creating efficiencies from the consolidation of health care provider networks, technology platforms and operations. We issued 5.3 million shares of our common stock with a fair value of approximately \$480 million in exchange for 93.5% of the outstanding AmeriChoice common stock. We also issued vested stock options with a fair value of approximately \$15 million in exchange for outstanding stock options held by AmeriChoice employees and paid cash of approximately \$82 million, mainly to pay off existing AmeriChoice debt. The purchase price and costs associated with the acquisition of approximately \$577 million exceeded the preliminary estimated fair value of the net tangible assets acquired by approximately \$528 million. This has been assigned to goodwill in the amount of \$472 million, and finite-lived intangible assets, primarily customer contracts, in the amount of \$56 million. The weighted-average useful life of the finite-lived intangible assets is estimated to be approximately 11 years. We will acquire the remaining minority interest after five years at a value based on a multiple of the earnings of the combined Medicaid business. We have the option to acquire the minority interest at an earlier date if specific events occur, such as the termination or resignation of key AmeriChoice employees. The results of operations for AmeriChoice since the acquisition date have been included in our Consolidated Statements of Operations. The pro forma effects of the AmeriChoice acquisition on our consolidated financial statements were not material.

Our preliminary estimate of the fair value of the tangible assets/(liabilities) as of the acquisition date is as follows:

(in millions)		
Cash and Cash Equivalents	\$	32
Accounts Receivable and Other Current Assets		38
Long-Term Investments		151
Property, Equipment and Capitalized Software		21
Medical Costs Payable		(129)
Other Current Liabilities		1641
Net Tangible Assets Acquired	S	49

In October 2001, our Specialized Care Services business segment acquired Spectera. Inc. (Spectera), a leading vision care benefits company in the United States, to expand the breadth of service offerings we extend to our customers. We paid \$37 million in cash, and issued 1.5 million shares of common stock with a fair value of \$106 million in exchange for all outstanding shares of Spectera. The purchase price and related acquisition costs of approximately \$140 million exceeded the estimated fair value of net assets acquired by \$126 million. Under the purchase method of accounting, we assigned this amount to goodwill. The results of operations for Spectera since the acquisition date are included in our Consolidated Statements of Operations. The pro-forma effects of the Spectera acquisition on our consolidated financial statements were not material.

For the years ended December 31, 2002, 2001 and 2000, aggregate consideration paid or issued for smaller acquisitions accounted for under the purchase method was \$267 million, \$134 million and \$76 million, respectively. These acquisitions were not material to our consolidated financial statements.

### 4 AARP

In January 1998, we initiated a 10-year contract to provide insurance products and services to members of AARP. Under the terms of the contract, we are compensated for transaction processing and other services as well as for assuming underwriting risk. We are also engaged in product development activities to complement the insurance offerings under this program. Premium revenues from our portion of the AARP insurance offerings were approximately \$3.7 billion in 2002, \$3.6 billion in 2001 and \$3.5 billion in 2000.

The underwriting gains or losses related to the AARP business are directly recorded as an increase or decrease to a rate stabilization fund (RSF). The primary components of the underwriting results are premium revenue, medical costs, investment income, administrative expenses, member service expenses, marketing expenses and premium taxes. Underwriting gains and losses are recorded as an increase or decrease to the RSF and accrue to AARP policyholders, unless cumulative net losses were to exceed the balance in the RSF, we would have to fund the deficit. Any deficit we fund could be recovered by underwriting gains in future periods of the contract. To date, we have not been required to fund any underwriting deficits. The RSF balance is reported in Other Policy Liabilities in the accompanying Consolidated Balance Sheets. We believe the RSF balance is sufficient to cover potential future underwriting or other risks associated with the contract.

The following AARP program-related assets and liabilities are included in our Consolidated Balance Sheets:

	buince is of December 51.					
(m millions:		2002		2001		
Assets Under Management	\$	2,045	\$	1,882		
Accounts Receivable	\$	294	\$	281		
Medical Costs Payable	\$	893	S	867		
Other Policy Liabilities	\$	1,299	\$	1.180		
Accounts Payable and Accrued Liabilities	\$	147	\$	116		

The effects of changes in balance sheet amounts associated with the AARP program accrue to AARP policyholders through the RSF balance. Accordingly, we do not include the effect of such changes in our Consolidated Statements of Cash Flows.

## 5 CASH, CASH EQUIVALENTS AND INVESTMENTS

As of December 31, the amortized cost, gross unrealized gains and losses, and fair value of cash, cash equivalents and investments were as follows (in millions):

2002	Amortized Cost	Gross Unreatizet. Gains	Gross Unrealized Losses	Fair Varce
Cash and Cash Equivalents	\$ 1,130	\$	<b>\$</b> -	\$ 1,130
Debt Securities — Available for Sale	4,742	238	(8)	4,972
Equity Securities — Available for Sale	150	5	(5)	150
Debt Securities — Held to Maturity	77	_	_	77
Total Cash and Investments	\$ 6,099	\$ 243	\$ (13)	\$ 6,329
2001				
Cash and Cash Equivalents	\$ 1.540	\$ -	s -	\$ 1,540
Debt Securities — Available for Sale	3,806	121	(20)	3,907
Equity Securities — Available for Sale	201	16	(46)	171
Debt Securities — Held to Maturity	80	_	-	80
Total Cash and Investments	\$ 5 <u>.62</u> 7	\$ 137	\$ (66)	\$ 5,698

As of December 31, 2002 and 2001, respectively, debt securities consisted of \$1,439 million and \$1,073 million in U.S. Government and Agency obligations, \$2,475 million and \$1,684 million in state and municipal obligations, and \$1,135 million and \$1,230 million in corporate obligations. At December 31, 2002, we held \$677 million in debt securities with maturities of less than one year. \$1,442 million in debt securities maturing in one to five years, and \$2,930 million in debt securities with maturities of more than five years.

During 2001 and 2000, respectively, we contributed United Health Capital investments valued at approximately \$22 million and \$52 million to the United Health Foundation, a non-consolidated, not-for-profit organization. The realized gains of approximately \$18 million in 2001 and \$51 million in 2000 were offset by related contribution expenses of \$22 million in 2001 and \$52 million in 2000. The net expenses of \$4 million in 2001 and \$1 million in 2000 are included in Investment and Other Income in the accompanying Consolidated Statements of Operations.

In a separate disposition of UnitedFlealth Capital investments during 2000, we realized a gain of \$27 million.

We recorded realized gains and losses on sales of investments, excluding the UnitedHealth Capital dispositions described above, as follows:

	For the Year Ended December 31,							
(ur nullions)	2002		2001		2000			
Gross Realized Gains	\$ 57	\$	30	\$	12			
Cross Realized Losses	(75	)	(19)		(46)			
Net Realized Gains (Losses)	\$ (18	) \$	11	S	(34)			

# 6 GOODWILL AND OTHER INTANGIBLE ASSETS

We adopted FAS No. 142, "Goodwill and Other Intangible Assets," on January I, 2002. Under FAS No. 142, goodwill and intangible assets with indefinite useful lives are not amortized. The following table shows not earnings and earnings per common share adjusted to reflect the adoption of the non-amortization provision of FAS No. 142 as of the beginning of the respective periods:

Im millions, except yet share data-	 	2002	For the Year Finded December 31,2001			2000	
NET EARNINGS							
Reported Net Earnings	\$	1,352	\$	913	\$	736	
Goodwill Amortization, net of tax effects		_		89		85	
Adjusted Net Earnings	\$	1,352	\$	1,002	\$	821	
BASIC NET EARNINGS PER COMMON SHARE							
Reported Basic Net Earnings per Share	\$	4.46	\$	2.92	S	2.27	
Goodwill Amortization, net of tax effects		_		0.29		0.26	
Adjusted Basic Net Earnings per Share	 \$	4.46	\$	3.21	s	2.53	
DILUTED NET EARNINGS PER COMMON SHARE							
Reported Diluted Net Earnings per Share	\$	4.25	\$	2.79	\$	2.19	
Goodwill Amortization, net of tax effects		_		0.28		0.25	
Adjusted Diluted Net Earnings per Share	\$	4.25	\$	3.07	\$	2.44	

Changes in the currying amount of goodwill, by operating segment, during the year ended December 31, 2002, were as follows:

	Health Care		Specialized		Conset dated
in milions,	Services	Unionse	Care Services _	ಿಗ್ಯಕಗಳ	Tata
Balance at January 1, 2002	\$ 1.166	\$ 698	\$ 322	<b>S</b> 537	\$ 2,725
Acquisitions and Subsequent Payments	527	_	41	75	643
Dispositions	_	_	-	(3)	(3)
Balance at December 31, 2002	\$ 1,693	\$ 698	\$ 363	\$ 609	\$ 3,363

The weighted-average useful life, gross carrying value, accumulated amortization and net carrying value of other intangible assets as of December 31, 2002 and 2001 were as follows:

	Weighted-		Dec	embe	r 31, 200	2	20	cember	31, 20	C1	
(າຍ ເກມີເວັດກະເ	Average Useful Life	Gross Carry Value			nulated tization	Net Carrying Value	Cartyrig elue	Accur Amort	ulated ization	Net Ca Val	
Customer Contracts and											
Membership Lists	14 years	\$ 64	f	\$	(1)	\$ 63	\$ _	S	_	\$	_
Patents, Trademarks	-										
and Technology	10 years	58	3	(	(24)	34	28		(19)		9
Non-compete Agreements	•										
and Other	7 years	31	i		(6)	25	22		(4)		18
Total	10 years	\$ 153	3	\$	(31)	\$ 122	\$ 50	8	(23)	\$	27

Amortization expense relating to other intangible assets was \$9 million in 2002. Estimated future amortization expense relating to other intangible assets for the years ending December 31 are as follows:

(in millious)	2003	2004	2005	2006	2007
	\$ 15	\$ 14	\$ 14	S 12	\$ 12

# 7 MEDICAL COSTS PAYABLE

The following table shows the components of the change in medical costs payable for the years ended December 31, excluding amounts related to the AARP business:

			For the Year Ended December 31			
On multions:		2002		2001		2000
MEDICAL COSTS PAYABLE, BEGINNING OF PERIOD	\$	2,593	S	2.411	\$	2,124
ACQUISITIONS <sup>1</sup>		180		17		_
REPORTED MEDICAL COSTS						
Current Year		14,860		14.367		12,996
Prior Years		(70)		(30)		(15)
Total Reported Medical Costs		14,790		14,337		12,981
CLAIM PAYMENTS						
Payments for Current Year	1	(12,435)		(11,933)	(	10.711)
Payments for Prior Years		(2,280)		(2.239)		(1,983)
Total Claim Payments	4	(14,715)		(14,172)	(	12,694)
MEDICAL COSTS PAYABLE, END OF PERIOD	\$	2,848	\$	2.593	\$	2.411

I Represents the medical costs payable balance as of the applicable acquisition date. Subsequent changes in estimates related to acquired medical costs payable are recorded as adjustments to Goodwill.

Amounts relating to the AARP business have been excluded since the underwriting gains or losses related to this contract are recorded as an increase or decrease to a rate stabilization fund, which is more fully described in Note 4. Medical costs payable balances relating to the AARP business were \$893 million, \$867 million, \$855 million and \$791 million as of December 31, 2002, 2001, 2000 and 1999, respectively. Medical costs relating to the AARP business were \$3,402 million, \$3,307 million and \$3,174 million for the years ended December 31, 2002, 2001 and 2000, respectively.

# 8 COMMERCIAL PAPER AND DEBT

Commercial paper and debt consisted of the following as of December 31 (in millions):

		2002		2001
	Carrying	Farr	Camying	=8.1
(m millions)	√ <u>a_u</u> ह	/aide	7a 6e	/a.ue
Commercial Paper	\$ 46	1 \$ 461	\$ 684	\$ 684
Floating-Rate Notes				
due November 2003	10	0 100	100	100
6.6% Senior Unsecured Notes				
due December 2003	25	0 260	250	266
Floating-Rate Notes				
due November 2004	15	0 150	150	150
7.5% Senior Unsecured Notes				
due November 2005	40	0 450	400	433
5.2% Senior Unsecured Notes				
due January 2007	40	0 423		_
Total Commercial Paper and Debt	1,76	1 1,844	1,584	1,633
Less Current Maturities	(81	1) (821)	(684)	(684)
Long-Term Debt, less current maturities	\$ 95	0 \$ 1,023	\$ 900	\$ 949

As of December 31, 2002, our outstanding commercial paper had interest rates ranging from 1.4% to 1.5%. The interest rates on the floating-rate notes are reset quarterly to the three-month LIBOR plus 0.3% for the notes due November 2003 and to the three-month LIBOR plus 0.6% for the notes due November 2004. As of December 31, 2002, the applicable rates on the notes were 1.7% and 2.0%, respectively.

In January 2002, we issued 5400 million of 5.2% fixed-rate notes due January 2007. We used proceeds from this borrowing to repay commercial paper and for general corporate purposes including working capital, capital expenditures, business acquisitions and share repurchases. When we issued these notes, we entered into interest rate swap agreements that qualify as fair value hedges to convert a portion of our interest rate exposure from a fixed to a variable rate. The interest rate swap agreements have an aggregate notional amount of \$200 million maturing January 2007. The variable rates approximate the six-month LIBOR and are reset on a semiannual basis in arrears. At December 31, 2002, the rate used to accrue interest expense on these swaps was approximately 1.4%.

We have credit arrangements for \$900 million that support our commercial paper program. These credit arrangements include a \$450 million revolving facility that expires in July 2005, and a \$450 million, 364-day facility that expires in July 2003. We also have the capacity to issue approximately \$200 million of extendible commercial notes (ECNs). As of December 31, 2002 and 2001, we had no amounts outstanding under our credit facilities of ECNs.

Our debt agreements and credit facilities contain various covenants, the most restrictive of which require us to maintain a debt-to-total-capital ratio below 45% and to exceed specified minimum interest coverage levels. We are in compliance with the requirements of all debt covenants.

Maturities of commercial paper and debt for the years ending December 31 are as follows:

(in millions)	2003	2004	2005	2006	2007
	\$ 811	\$ 150	\$ 400	S -	\$ 400

We made cash payments for interest of \$86 million, \$91 million and \$68 million in 2002, 2001 and 2000, respectively.

### 9 SHAREHOLDERS' EQUITY

### REGULATORY CAPITAL AND DIVIDEND RESTRICTIONS

We conduct a significant portion of our operations through companies that are subject to standards established by the National Association of Insurance Commissioners (NAIC). These standards, among other things, require these subsidiaries to maintain specified levels of statutory capital, as defined by each state, and restrict the timing and amount of dividends and other distributions that may be paid to their parent companies. Generally, the amount of dividend distributions that may be paid by a regulated subsidiary, without prior approval by state regulatory authorities, is limited based on the entity's level of statutory net income and statutory capital and surplus. At December 31, 2002, approximately \$280 million of our \$6.3 billion of cash and investments was held by non-regulated subsidiaries. Of this amount, approximately \$130 million was available for general corporate use, including acquisitions and share repurchases. The remaining \$150 million consists primarily of public and non-public equity securities held by UnitedHealth Capital, our investment capital business.

The agencies that assess our creditworthiness also consider capital adequacy levels when establishing our debt ratings. Consistent with our intent to maintain our senior debt ratings in the "A" range, we maintain an aggregate statutory capital and surplus level for our regulated subsidiaries that is significantly higher than the minimum level regulators require. As of December 31, 2002, our regulated subsidiaries had aggregate statutory capital and surplus of approximately \$2.5 billion, which is significantly more than the aggregate minimum regulatory requirements.

### STOCK REPURCHASE PROGRAM

Under our board of directors' authorization, we maintain a common stock repurchase program. Repurchases may be made from time to time at prevailing prices, subject to restrictions on volume, pricing and timing. During 2002, we repurchased 22.3 million shares for an aggregate of \$1.8 billion. As of December 31, 2002, we had board of directors' authorization to purchase up to an additional 16.5 million shares of our common stock

As a limited part of our share repurchase activities, we had entered into purchase agreements with an independent third party to purchase shares of our common stock at various times and prices. In May 2002, the share purchase agreements were terminated, and we elected to receive shares of our common stock from the third party as settlement consideration. The favorable settlement amount was not material and was recorded through additional paid-in capital. We currently have no outstanding purchase agreements with respect to our common stock.

# PREFERRED STOCK

At December 31, 2002, we had 10 million shares of \$0,001 par value preferred stock authorized for issuance, and no preferred shares issued and outstanding.

# 10 STOCK-BASED COMPENSATION PLANS

During 2002, our shareholders voted to consolidate our three primary stock-based compensation plans into one new plan. As of December 31, 2002, 29.0 million shares remained available under that plan for future grants of stock-based awards including, but not limited to, incentive or non-qualified stock options, stock appreciation rights and restricted stock. No shares are available for grants from our other plans.

Stock options are granted at an exercise price not less than the fair value of our common stock on the date of grant. They generally vest ratably over four years and may be exercised up to 10 years from the date of grant. Activity under our stock plans is summarized in the table below (shares in thousands):

		Weighted-Average		2001			2000		
					We <u>z</u> nted-Average			Weighted-Average	
	Shares	Exerc	ise Price	Shares	Sterc	se Price	Shares	Exercise	: Price
Outstanding at Beginning of Year	38,337	\$	29	38,810	\$	22	44,080	\$	19
Granted	12,517	\$	75	8,139	\$	53	8.516	\$	30
Assumed in Acquisitions	457	\$	60	191	\$	10	-	\$	-
Exercised	(6,614)	\$	27	(7,716)	S	20	(12,331)	\$	17
Forteited	(1,496)	\$	40	(1,090)	S	25	(1,455)	\$	20
Outstanding at End of Year	43,201	\$	42	38,337	S	29	38.810	\$	22
Exercisable at End of Year	20,696	\$	24	19,585	\$	21	17,367	\$	20

As of December 31, 2002		Octions Outstandin	Options Exercisable			
Pange of Exercise Prices	Number Outstanding	Weighted-Average Remaining Option Term (years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price	
\$ 0 - \$20	4,358	4.5	\$ 17	4.219	\$ 18	
\$21 - \$ <del>4</del> 0	19,597	6.3	\$ 24	14,724	\$ 23	
\$41 - \$70	13,833	8.5	\$ 61	1,631	\$ 54	
\$71 - \$100	5,413	9.6	\$ 83	122	\$ 83	
\$ 0 - \$100	43,201	7.3	\$ 42	20.696	\$ 24	

To determine compensation expense under the fair value method, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The principal assumptions we used in applying the Black-Scholes model were as follows:

	2002	2001	2555
Risk-Free Interest Rate	2.5%	3.7%	5.0%
Expected Volatility	40.2%	45.9%	49.0%
Expected Dividend Yield	0.1%	0.1%	0.1%
Expected Life in Years	4.5	4.8	4.5

Information regarding the effect on not earnings and net earnings per common share had we applied the fair value expense recognition provisions of FAS No. 123 is included in Note 2.

Effective August 1, 2002, our employee stock ownership plan was merged into our existing 401(k) plan. We also maintain an employee stock purchase plan. Activity related to these plans was not significant in relation to our consolidated financial results in 2002, 2001 and 2000.

# 11 INCOME TAXES

The components of the	provision (	(benefit)	for income	tayes are as	fallows
The components of the	DICHIDICAL		tor micomic	CANCERUL AS.	1171117777

Year Luded December 31 (in millions)	2002		2001	2000
Current Provision				
Federal	\$	675	\$ 524	\$ 330
State and Local		57	45	38
Total Current Provision		732	569	368
Deferred Provision (Benefit)		12	(10	51
Total Provision for Income Taxes	\$	744	\$ 559	\$ 419

The reconciliation of the tax provision at the U.S. Federal Statutory Rate to the provision for income taxes is as follows:

Year Ended December 31, (in millions)	2002	2001	2000
Tax Provision at the U.S. Federal Statutory Rate	\$ 734	\$ 515	\$ 404
Stare Income Taxes, net of federal benefit	33	29	20
Tax-Exempt Investment Income	(26)	(21)	(17)
Non-deductible Amortization	· <b>-</b>	29	27
Charitable Contributions	_	_	(18)
Other, net	3	7_	(6)
Provision for Income Taxes	<b>\$ 744</b>	S 559	S 419

The components of deferred income tax assets and liabilities are as follows:

Net Deferred Income Tax Assets

As of December 31. (p. millions)	2002	2001
Deferred Income Tax Assets		
Accrued Expenses and Allowances	\$ 252	\$ 206
Unearned Premiums	47	65
Medical Costs Payable and Other Policy Liabilities	60	84
Not Operating Loss Carrytorwards	61	39
Other	30	30
Subtotal	450	424
Less: Valuation Allowances	(39)	(39)
Total Deferred Income Tax Assets	411	385
Deferred Income Tax Liabilities		
Capitalized Software Development	(176)	(150)
Net Unrealized Gains on Investments	(82)	(31)
Depreciation & Amortization	(54)	(22)
Total Deferred Income Tax Liabilities	(312)	(203)

Valuation allowances are provided when it is considered more likely than not that deferred tax assets will not be realized. The valuation allowances relate to future tax benefits on certain federal, state and forcign net operating loss carryforwards. Federal net operating loss carryforwards expire beginning in 2017 through 2022, and state net operating loss carryforwards expire beginning in 2005 through 2022.

We made cash payments for income taxes of \$458 million in 2002, \$384 million in 2001 and \$352 million in 2000. We increased additional paid-in capital and reduced income taxes payable by \$133 million in both 2002 and 2001, and by \$116 million in 2000 to reflect the tax benefit we received upon the exercise of non-qualified stock options.

The company, together with its wholly-owned subsidiaries, files a consolidated federal income tax return. Internal Revenue Service examinations for the 1999 and 1998 tax years have been completed and did not have a significant impact on our consolidated operating results or financial position.

## 12 COMMITMENTS AND CONTINGENCIES

## LEASES

We lease facilities, computer hardware and other equipment under long-term operating leases that are noncancelable and expire on various dates through 2025. Rent expense under all operating leases was \$132 million in 2002, \$135 million in 2001 and \$132 million in 2000.

At December 31, 2002, future minimum annual lease payments, net of sublease income, under all noncancelable operating leases were as follows:

(in millions)	2003	2004	2005	2006	2007	Thereafter
	\$ 109	\$ 94	\$ 85	\$ 75	\$ 67	\$ 190

### SERVICE AGREEMENTS

We have three separate contracts for certain data center operations and support, and network and voice communication services, which expire in 2005 and 2006. Expenses incurred in connection with these agreements were \$201 million in 2002, \$196 million in 2001 and \$182 million in 2000.

#### LEGAL MATTERS

Because of the nature of our businesses, we are routinely party to a variety of legal actions related to the design, management and offerings of our services. We record liabilities for our estimate of probable costs resulting from these matters. These matters include, but are not limited to: claims relating to health care benefits coverage; medical malpractice actions: contract disputes; and claims related to disclosure of certain business practices. Following the events of September 11, 2001, the cost of business insurance coverage increased significantly. As a result, we have increased the amount of risk that we self-insure, particularly with respect to routine matters incidental to our business.

In 1999, a number of class action lawsuits were filed against us and virtually all major entities in the health benefits business. The suits are purported class actions on behalf of certain customers and physicians for alleged breaches of federal statutes, including the Employee Retirement Income Security Act of 1974, as amended (ERISA), and the Racketeer Influenced Corrupt Organization Act (RICO).

Although the results of pending litigation are always uncertain, we do not believe the results of any such actions currently threatened or pending, including those described above, will, individually or in aggregate, have a material adverse effect on our consolidated financial position or results of operations.

### GOVERNMENT REGULATION

Our business is regulated at federal, state, local and international levels. The laws and rules governing our business are subject to frequent change, and agencies have broad latitude to administer those regulations. State legislatures and Congress continue to focus on health care issues as the subject of proposed legislation. Existing or future laws and rules could force us to change how we do business, restrict revenue and enrollment growth, increase our health care and administrative costs and capital requirements, and increase our liability related to coverage interpretations or other actions. Further, we must obtain and maintain regulatory approvals to market many of our products.

We are also subject to various ongoing governmental investigations, audits and reviews, and we record liabilities for our estimate of probable costs resulting from these matters. Although the results of pending matters are always uncertain, we do not believe the results of any of the current investigations, audits or reviews, individually or in the aggregate, will have a material adverse effect on our consolidated financial position or results of operations.

### 13 SEGMENT FINANCIAL INFORMATION

Factors used in determining our reportable business segments include the nature of operating activities, existence of separate senior management teams, and the type of information presented to the company's chief operating decision-maker to evaluate our results of operations.

Our accounting policies for business segment operations are the same as those described in the Summary of Significant Accounting Policies (see Note 2). Transactions between business segments principally consist of customer service and transaction processing services that Uniprise provides to UnitedHealthcare and Ovations, certain product offerings sold to Uniprise and UnitedHealthcare customers by Specialized Care Services, and sales of medical benefits cost, quality and utilization data and predictive modeling to UnuedHealthcare, Ovations and Uniprise by Ingenix. These transactions are recorded at management's best estimate of fair value, as if the services were purchased from or sold to third parties. All intersegment transactions are eliminated in consolidation. Assets and liabilities that are jointly used are assigned to each segment using estimates of pro-rata usage. Cash and investments are assigned such that each segment has minimum specified levels of regulatory capital or working capital for non-regulated businesses. The "Corporate and Eliminations" column includes costs associated with company-wide process improvement initiatives, net expenses from charitable contributions to the United Health Foundation and eliminations of intersegment transactions. In accordance with accounting principles generally accepted in the United States of America, segments with similar economic characteristics may be combined. The financial results of UnitedHealthcare, Ovations and AmeriChoice have been combined in the Health Care Services segment column in the tables presented on the next page because these businesses have similar economic characteristics and have similar products and services, types of customers, distribution methods and operational processes, and operate in a similar regulatory environment, typically within the same legal entity. Substantially all of our operations are conducted in the United States. The following tables present segment financial information as of and for the years ended December 31, 2002, 2001 and 2000 (in millions):

2002	Health Care Services	:	Jniprisē		ecialized e Services	In	gen'x		orporate ium nations	Consolicated
Revenues — External Customers Revenues — Intersegment Investment and Other Income	\$ 21,465 179		2,083 603 27	\$	897 598 14	\$	355 136	\$	1,337) —	\$ 24,800 220
Total Revenues	\$ 21,644	\$	2,713	\$	1,509	\$	491	\$(	1,337)	\$ 25,020
Earnings From Operations Total Assets <sup>1</sup> Net Assets <sup>1</sup>	\$ 1,336 \$ 10,522 \$ 4,379		509 1,914 1,097	\$ \$ \$	286 974 602	\$ \$ \$	55 902 763	\$ \$ \$	- (537) (517)	\$ 2,186 \$ 13,775 \$ 6,324
Purchases of Property, Equipment and Capitalized Software Depreciation and Amortization	\$ 129 \$ 102	\$ \$	159 69	\$ \$	59 36	\$ \$	72 48	\$ \$	<del>-</del> -	\$ 419 \$ 255
2001 Revenues — External Customers Revenues — Intersegment Investment and Other Income Total Revenues	\$ 20.259 - 235 \$ 20,494	·	1,841 587 34 2,462	\$	734 504 16 1,954	s s	339 108 - 447	`	(1.199) (4) (1,203)	\$ 23,173 - 281 \$ 28,454
Earnings From Operations Total Assets <sup>1</sup> Net Assets <sup>1</sup>	\$ 944 \$ 9,014 \$ 3,408		374 1.737 1.020	\$ \$ \$	214 848 514	\$ \$ \$	48 771 646	\$ \$ \$	(14) (200) (158)	\$ 1,366 \$ 12,170 \$ 5,430
Purchases of Property. Equipment and Capitalized Software Depreciation and Amortization	\$ 152 \$ 101	\$ 	171 81	\$ \$	33 33	\$	69 50	\$ \$	<u>-</u> -	\$ 425 \$ 265
2000 Revenues — External Customers Revenues — Intersegment Investment and Other Income Total Revenues	\$ 18,502 - 194 \$ 18.696		1.595 520 25 2,140	\$ \$	503 461 10 974	\$	290 85 - 375		1.066) 3 (1.065)	\$ 20,890 - 232 \$ 21,122
Earnings From Operations Total Assets <sup>1</sup> Net Assets	\$ 739 \$ 8,118 \$ 3,085	\$ \$ \$	289 1,578 978	\$ \$	174 525 276	60 65 69	32 730 617	\$ \$ \$	(34) (133) (113)	\$ 1.200 \$ 10,818 \$ 4.843
Purchases of Property, Equipment and Capitalized Software Depreciation and Amortization	\$ 88 \$ 100	<b>\$</b>	94 75	\$ \$	28 25	\$ \$	35 47	\$ \$	_ _	\$ 245 \$ 247

<sup>1</sup> Total Assets and Net Assets exclude, where applicable, debt and accrued interest of \$1,775 million, \$1,603 million and \$1,222 million, income tax-related assets of \$389 million, \$316 million and \$235 million, and income tax-related liabilities of \$510 million, \$252 million and \$168 million as of December 31, 2002, 2001 and 2000, respectively.

# 14 QUARTERLY FINANCIAL DATA (UNAUDITED)

	For the Quarter Loded							
in millions, except per share data!	March 31		June 30		September 30		December 31	
2002								
Revenues	\$ 6,013	\$	6,078	\$	6,247	\$	6,682	
Medical and Operating Expenses	\$ 5,531	\$	5,555	\$	5,675	\$	,	
Earnings From Operations	\$ 482	\$	523	\$	572	\$	6091	
Net Earnings	\$ 295	\$	325	\$	353	\$	379¹	
Basic Net Earnings per Common Share	\$ 0.96	\$	1.07	\$	1.17	\$	1.261	
Diluted Net Earnings per Common Share	\$ 0.92	\$	1.01	\$	1.12	\$	1.201	
2001								
Revenues	\$ 5,680	\$	5,813	S	5,941	S	6,020	
Medical and Operating Expenses	\$ 5.315	\$	5,429	\$	5.5 <del>4</del> 5		-	
Earnings From Operations	\$ 365	\$	384	\$	396	5	421	
Net Earnings	\$ 212	\$	223	s	231	\$	247	
Basic Net Earnings per Common Share	\$ 0.67	\$	0.71	\$	0.75	\$	0.79	
Diluted Net Earnings per Common Share	\$ 0.64	\$	0.68	S	0.71	\$	0.76	

<sup>1</sup> includes an estimated \$40 million (526 million after tax effect), or \$0.08 diluted ner earnings per common share, of favorable medical costs estimate development from prior periods.

#### REPORT OF MANAGEMENT

The management of UnitedHealth Group is responsible for the integrity and objectivity of the consolidated financial information contained in this annual report. The consolidated financial statements and related information were prepared according to accounting principles generally accepted in the United States of America and include some amounts that are based on management's best estimates and judgments.

To meet its responsibility, management depends on its accounting systems and related internal accounting controls. These systems are designed to provide reasonable assurance, at an appropriate cost, that financial records are reliable for use in preparing financial statements and that assets are safeguarded. Qualified personnel throughout the organization maintain and monitor these internal accounting controls on an ongoing basis.

The Audit Committee of the board of directors, composed entirely of directors who are not employees of the company, meets periodically and privately with the company's independent auditors and management to review accounting, auditing, internal control, financial reporting and other matters.

William W. McGuire, MD Chairman and Chief Executive Officer

Stephen J. Hemsley President and Chief Operating Officer

Patrick J. Erlandson Chief Financial Officer

#### INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of UnitedHealth Group Incorporated:

We have audited the accompanying consolidated balance sheet of UnitedHealth Group Incorporated and Subsidiaries as of December 31, 2002, and the related statements of operations, changes in shareholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of UnitedHealth Group Incorporated and Subsidiaries as of December 31, 2001, and for each of the two years in the period ended December 31, 2001, were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those consolidated financial statements in their report dated January 24, 2002.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2002, the Company changed its method of accounting for goodwill and other intangible assets.

As discussed above, the consolidated financial statements of UnitedHealth Croup Incorporated as of December 31, 2001 and 2000, and for each of the two years in the period ended December 31, 2001, were audited by other auditors who have ceased operations. As described in Notes 6 and 7, these consolidated financial statements have been revised to (i) include the transitional disclosures required by Statement of Financial Accounting Standards (Statement) No. 142, Goodwill and Other Intangible Assets, which, as described in Note 2, was adopted by the Company as of January 1, 2002, and (ii) include disclosure of the components of the change in medical costs parable consistent with Statement of Position 94-5, Disclosures of Certain Matters in the Financial Statements of Insurance Enterprises. Our audit procedures with respect to the disclosures in Note 6 with respect to 2001 and 2000 included (i) agreeing the previously reported net income to the previously issued consolidated financial statements and the adjustments to reported net income representing amortization expense (including any related tax effects) recognized in those periods related to goodwill, intangible assets that are no longer being amortized, deferred credits related to an excess over cost, equity method goodwill, and changes in amortization periods for intangible assets that will continue to be amortized as a result of initially applying Statement No. 142 (including any related tax effects) to the Company's underlying records obtained from management, and (ii) testing the mathematical accuracy of the reconciliation of adjusted net income to reported net income, and the related earnings-per-share amounts. Our audit procedures with respect to the disclosures in Note 7 with respect to 2001 and 2000 included (i) agreeing the previously reported beginning and end of year medical costs payable to the previously issued consolidated financial statements, (ii) agreeing the previously reported medical costs to the previously issued consolidated financial statements (iii) agreeing paid claims payments and prior years medical costs change in medical costs payable to supporting documentation of claims payment detail and (iv) testing the mathematical accuracy of the components of the change in medical costs payable. In our opinion, the disclosures for 2001 and 2000 in Notes 6 and 7 are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2001 and 2000 consolidated financial statements of the Company other than with respect to such disclosures and, accordingly, we do not express an opinion or any other form of assurance on the 2001 and 2000 consolidated financial statements taken as a whole.

DELOITTE & TOUCHE LLP Minneapolis, Minnesota January 23, 2003

#### INDEPENDENT AUDITORS' REPORT

The following audit report of Arthur Andersen I.I.P. our former independent auditors, is a copy of the original report dated January 2-1, 2002, rendered by Arthur Andersen LLP on our consolidated financial statements included in our Annual Report on Form 10-K filed on April 1, 2002, and has not been reissued by Arthur Andersen I.I.P since that datc.

To the Shareholders and Directors of UnitedHealth Group Incorporated:

We have andited the accompanying consolidated balance sheets of UnitedHealth Group Incorporated (a Minnesota Corporation) and Subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UnitedHealth Group Incorporated and its Subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP Minneapolis, Minnesota January 24, 2002

# CORPORATE AND BUSINESS LEADERS

## UnitedHealth Group

William W. McGuire, MD

Chairman and Chief Executive Officer

Stephen J. Hemsley

President and Chief Operating Officer

Patrick J. Erlandson

Chief kinancial Officer

David J. Lubben

General Counsel

James B. Hudak

Chief Executive Officer UnitedHealth Technologies

Reed V. Tuckson, MD

Senior Vice President Consumer Health and Medical Care Advancement

L. Robert Dapper

Senior Vice President Human Capital

Tracy L. Bahl

Senior Vice President Chief Marketing Officer

John S. Penshorn

Director of Capital Markets Communications and Strategy

#### UnitedHealthcare

Robert J. Sheehy

Chief Executive Officer

Ovations

Lois Quam

Chief Executive Officer

Uniprise

R. Channing Wheeler

Chief Executive Officer

Specialized Care Services

Ronald B. Colby

Clinef Executive Officer

Ingenix

Jeannine M. Rivet

Executive Vice President UnitedHealth Group and Chief Executive Officer

Ingenix

AmeriChoice

Anthony Welters Chief Executive Officer BOARD OF DIRECTORS

William C. Ballard, Jr.

Of Counsel

Greenebaum, Doll & McDonald Louisville, Keniucky, law firm Director since 1993

Richard T. Burke

Former Chief Executive Officer and Governor Phoenix Covotes Nauonal Hockey League team

Director since 1977,

Stephen J. Hemsley President and Chief Operating Officer UnitedHealth Group Director since 2000.

James A. Johnson

Vice Charman Perseus, LLC Private merchant banking and investment from Director since 1993.

Thomas H. Kean

President Drew University Director since 1993.

Douglas W. Leatherdale

Former Chairman and Chief Executive Officer The St. Paul Companies. Inc. Insurance and related services. Director since 1983.

William W. McGuire, MD

Chairman and Chief Executive Officer United/Health Group Director since 1989.

Mary O. Mundinger, RN, DrPH

Dean and Centennial Professor in Health Policy, School of Nursing, and Associate Dean, Faculty of Medicine Columbia University Director since 1997

Robert L. Ryan

Senior Vice President and Chief Financial Officer Medironic, Inc. Medical technology company Director since 1996. Donna E. Shalala, PhD

President

University of Miann Director since 2001.

William G. Spears

Managing Parmer Spears Grisanti & Brown LLC New York City-based investment counseling and management firm Director since 1991.

Gail R. Wilensky, PhD

Senior Fellow Project HOPE

International health foundation Director since 1998.

Audit Committee

William C. Ballard, Jr. James A. Johnson Douglas W. Leatherdale

Robert L. Ryan

Compensation and Human Resources Committee

Thomas H. Kean Mary O. Mundinger William G. Spears

Compliance and Government

Affairs Committee

Richard T. Burke Donna E. Shalala Gail R. Wilensky

Executive Committee

William C. Ballard, Jr. Douglas W. Leatherdale William W. McGuire William G. Spears

Nominating Committee

William C. Ballard, Jr. Thomas H. Kean Douglas W. Leatherdale William G. Spears

## FINANCIAL PERFORMANCE AT A GLANGE

GROWTH & PROFITS — CONSOLIDATED <sup>1</sup> (in unillions, except per share data)	2002	2001	2000
Revenues	\$ 25,020	\$ 23,454	\$21,122
Earnings From Operations Operating Margin Return on Net Assets	\$ 2,186 8.7% 37.5%	\$ 1,566 6.7% 30.7%	\$ 1,200 5.7% 25.5%
Net Earnings Net Margin	\$ 1,352 5.4%	\$ 913 3.9%	S 705 3.3%
Diluted Net Earnings per Share	\$ 4.25	\$ 2.79	\$ 2.10
GROWTH & PROFITS — BY SEGMENT (in millions)	2002	2001	2000
HEALTH CARE SERVICES Revenues Earnings From Operations Operating Margin Return on Net Assets	\$ 21,644 \$ 1,336 6.2% 35.7%	\$ 20,494 \$ 944 4.6% 29.2%	\$ 18.696 \$ 739 4.0% 24.6%
UNIPRISE Revenues Earnings From Operations Operating Margin Return on Net Assets	\$ 2,713 \$ 509 18.8% 47.9%	\$ 2,462 \$ 374 15.2% 37.2%	\$ 2,140 \$ 289 13.5% 30.6%
SPECIALIZED CARE SERVICES Revenues Earnings From Operations Operating Margin Return on Net Assets	\$ 1,509 \$ 286 19.0% 50.7%	\$ 1,254 \$ 214 17.1% 59.1%	\$ 974 \$ 174 17.9% 68.8%
INGENIX Revenues Earnings From Operations Operating Margin Return on Net Assets	\$ 491 \$ 55 11.2% 7.6%	\$ 447 \$ 48 10.7% 7.5%	\$ 375 \$ 32 8.5% 5.2%
CAPITAL ITEMS <sup>1</sup> (in millions, except per share data)	2002	2001	2000
Cash Flows From Operating Activities	\$ 2,423	\$ 1,844	\$ 1,521
Capital Expenditures	<b>\$ 419</b>	\$ 425	\$ 245
Consideration Paid or Issued for Acquisitions	\$ 869	\$ 255	\$ 76
Debt-to-Total-Capital Ratio	28.5%	28.9%	24.7%
Return on Shareholders' Equity	33.0%	24.5%	19.0%
Year-End Market Capitalization	\$ 25,005	\$ 21,841	\$ 19,470
Year-End Common Share Price	\$ 83.50	<b>\$ 7</b> 0.77	\$ 61.38

<sup>1</sup> Excludes nonrecurring items in 2000, as described in foomote 1 at the bottom of page 19.

#### INVESTOR INFORMATION

### Market Price of Common Stock

The following table shows the range of high and low sales prices for the company's stock as reported on the New York Stock Exchange for the calendar periods shown through February 28, 2003. These prices do not include commissions or fees associated with purchasing or selling this security.

	- H-gh	Low
2003		
First Quarter		
Through February 28, 2003	\$ 88.75	\$ 78.40
0000		
2002		A /-
First Quarter	\$ 76.80	\$ 67.85
Second Quarter	\$ 97.89	\$ 75.13
Third Quarter	\$ 96.30	\$ 81.48
Fourth Quarter	\$101.00	\$ 75.04
2001		
First Quarter	\$ 64.36	\$ 50.50
Second Quarter	\$ 67.40	\$ 52.50
_		
Third Quarter	\$ 70.00	\$ 58.80
Fourth Quarter	\$ 72.80	\$ 62.42

As of February 28, 2003, the company had 12.811 shareholders of record.

#### Account Questions

Our transfer agent, Wells Furgo, can help you with a variety of shareholder-related services, including:

Change of address

Lost stock certificates

Transfer of stock to another person

Additional administrative services

You can call our transfer agent at (800) 468-9716 or locally at (651) 450-4064.

You can write them at:

Wells Fargo Shareowner Services

P.O. Box 64854

Saint Paul, Minnesota 55164-0854

Or you can e-mail our transfer agent at: stocktransfer@wellsfargo.com

#### Investor Relations

You can contact UnitedHealth Group Investor Relations any time to order, without charge, financial documents, such as the annual report and Form 10-K. You can write to us at:

Investor Relations, MN008-T930

UnitedHealth Group

P.O. Box 1459

Minneapolis, Minnesota 55440-1459

#### Annual Meeting

We invite UnitedHealth Group shareholders to attend our annual meeting, which will be held on Wednesday, May 7, 2003, at 10 a.m., at UnitedHealth Group Center, 9900 Bren Road East, Minnetonka, Minnesota.

### Dividend Policy

UnitedHealth Group's board of directors established the company's dividend policy in August 1990. The policy requires the board to review the company's audited financial statements following the end of each fiscal year and decide whether it is advisable to declare a dividend on the outstanding shares of common stock.

Shareholders of record on April 2, 2001, received an annual dividend for 2001 of \$0.03 per share. Shareholders of record on April 1, 2002, received an annual dividend for 2002 of \$0.03 per share. On February 11, 2003, the board of directors approved an annual dividend for 2003 of \$0.03 per share. The dividend will be paid on April 17, 2003, to shareholders of record at the close of business on April 1, 2003. We expect to continue paying comparable cash dividends in the future.

### Stock Listing

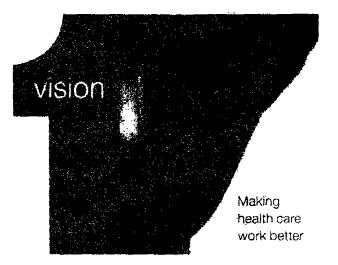
The company's common stock is traded on the New York Stock Exchange under the symbol UNH.

### Information Online

You can view our annual report and obtain more information about UnitedHealth Group and its businesses via the Internet at:

www.unitedhealthgroup.com

UnitedHealth Group | 2003 annual report



Recognizing that the fundamental onellenge faced by the American health dare system involves not a starcity of resources but the failure to optimize their use. UnitedHealth Group marshals beople iskels and technology to make health care services more accessible for all Americans, to improve the health care experience, to enhance health outcomes and to make services more altorouble.

Organizing and lacilitating affordable access to health and well-being resources. Developing and applying technology to simplify lealth care delivery, improve the service experience and lower costs. capabilities Galhering and sharing internation to propert prairier decision-making and hopeve health care succours.

Linking technology, health care resource organization, and management programs. Uniprise brings greater simplicity and quality to benefits administration and delivery, which in turn helps improve how the health care system works for consumers, employers and health plans.

Focusing health care products and services on unique specialized needs. Specialized Care Services provides individuals with vital resources ranging from Centers of Excellence for critical diseases and needs, to ancillary care services to unique patient support interventions.

Providing crucial data that physicians, dare providers, hospitals, health plans, payers, governments, and pharmaceutical and device manufacturers need to optimize performance, Ingenix, marshals unrivaled expertise in database services, consulting services and analytics, information software, publications and online services, and support services for drug and medical device development.

Uniprise"

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Specialized Care Services

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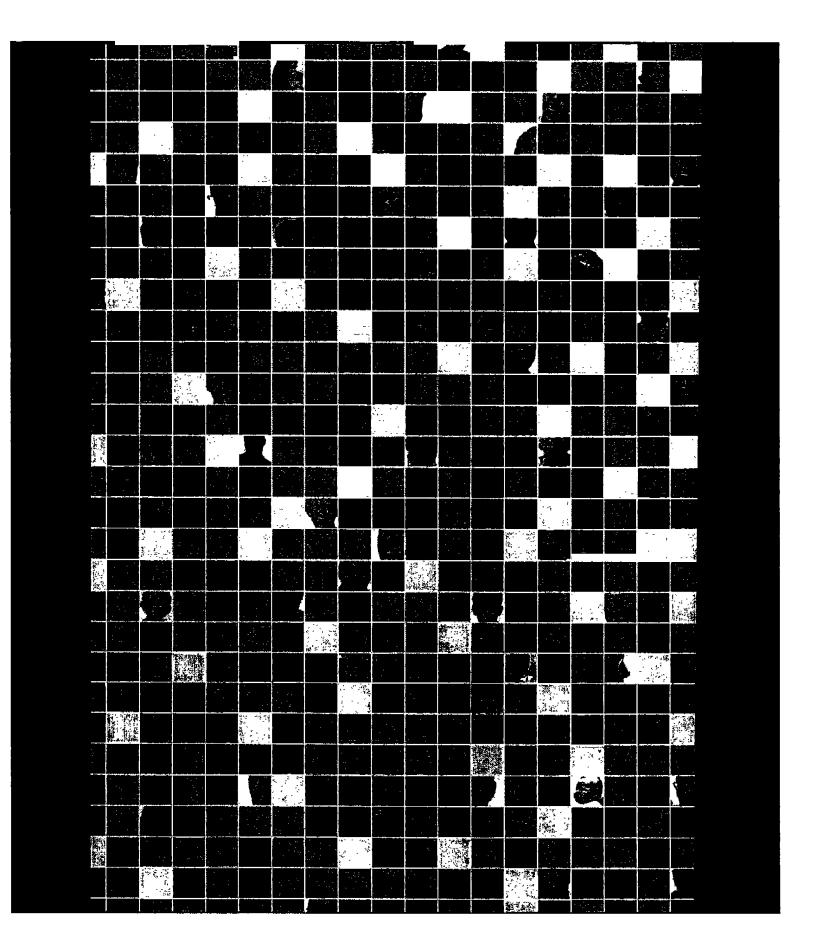


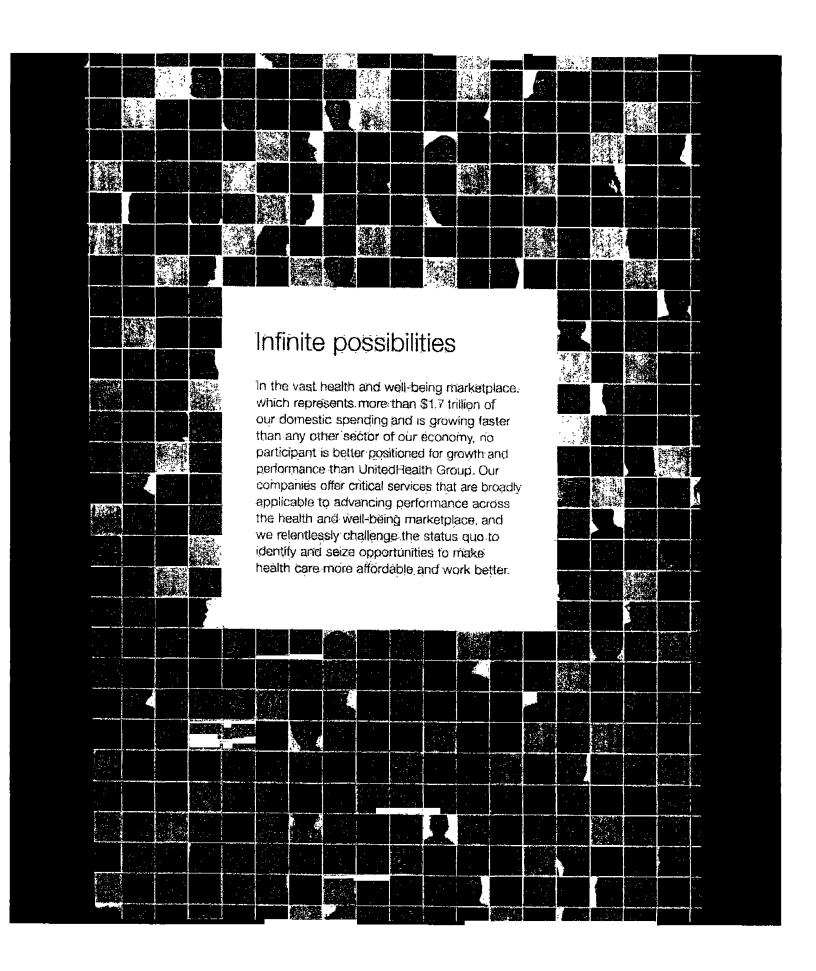
UnitedHealthcare

Providing individuals with simple. convenient access to a broad and diverse spectrum of physicians, care professionals, hospitals and health care resources. UnitedHealthcare combines important health services with flexible, consumer-oriented bariefit designs and the buying power of nearly 20 million individuals.

The largest business in the United States solely dedicated to the health and well-being needs of people age 50 and over, Ovations provides a wide range of important products and services locused on the needs of pider Americans.

Helping to deliver needed services to participants in state-sponsored health care programs. AmeriChoico combines community-based health networks with preventive services. outreach, and select care management and facilitation to address the complex and unique needs of each recipient.





#### Letter from the chairman

 $oldsymbol{\Delta}$ t UmtedHealth Group, om long-standing interest — From a husiness, medical and social conject — has been to make health care resources work better for everyone. This efforts thave been engaged at many levels — advancing access to tare, improving services and sestents integral to a progressive health system, and Ladinanng development of new products and tools for health artifuncement — all with the intent of achieving higher quality ourcomes at an affordable cost The activities unit associated results have benefited those we serve and this ewith whom we work. Our shareholders, in turn, have realized meaningful and communing advances in the value of 1 mood Health Group as an investment. In that regard, our 2005 linanced results and long-term growth measures speak for themselves.

We are passionate about our mission to improve how health care works, and thus gratified by the igninwe have made and the benefits realized by those we serve. At the same time, and more terseatly that even we are disappointed that as an enterprise and a society we have not in librard more. The health care challenges before as grow larger and more costly, and they are expanding. This is confirmed to ass every dayas we interact with business leaders, legislators, physicians, hospital administrators and people in communities across the country who express anxiety over such issues as affordable necess to services; the impact of vising numbers of unusured Americans, the quality, effectiveness and sales of medical carie the challenges of promoting healther lifestyles and preventing discuse, and the overall complexity of the health care sistem and related health care administration,

Our health ware wasen war - must - work better, he more efficient, and truly provide for all people. Frameour vaneage points we know this can happen. We see firstlands on a stre-to-day basis, the many advances that from sold should be made to realize that good. We also know that I migdl health Group. is positioned - by its assets and expertise - to help adhieve that and its content with tederal and .એમંદ્ર <mark>પ્રતિક્ષ્</mark>રણમાં ઉપોત્ર, દેવાણી ભૂપુર, ભૂમિજાં હોઇક, health હેમંદ્ર કહ્યું કરે કર્યો મહામાણી ક્ષાણ જે તેની સામેક સ્થિત કર્યો છે. adifridició themselves.

As our company advances on many froms to make health care work better, we semain guided by key beliefs that have only grown stronger over the past several years:

- As a nation, we can and must cover everyone. Our society must pipoide an essential level of health care for all people. Without such basic and universal coverage, both human suffering and economic inelliciency me mexitable. Focusing first on essential services, and delivering them optimally to all people, is integral to moderaging overall health care costs. Considerable evidence suggests that we can provide timely essential services to all at no more cost than we spend to have provide services for only a portion of our population, because ours is a frequently inefficient and oftentimes too discretionary health system.
- Scientifically based decisions and actions regarding health care choices are essential. Lodar, it is more obvious than ever that the cornerstone for improving our licalth sistem is the adoption of evidence-based medicine as the standard for care decisions and action. Clinical care based on evidence must become a persasive standard for the care that is delivered and that which is sought. It should underscore consumer decisions, physician action, resource organization and health care beautiful coverage. The positive effect of this approach comes from our ability to conserve resources and expend fewer dullars on marginal and, at times unsupported approaches and interventions. That in turn will increase access and resource availability as well as affordability, for what is of proven adopt.
- > Technology can significantly contribute. The complexity and costs associated with the administration of our current health-system can be dramatically improved by applying basic technologs to standard processes for health care in a teshfort similar to the way standards have been applied in other service accross, such as banking and manufacturing. We have already seen—for our customers and our own business—the introduce value and potential gains from efforts of this type. Steps such as these will meaningfully advance beauth and well-being through simplification.

mureased efficiency, better information exchanges, error reduction, lacilitation of optimitin medicalinterventions, and better education tools, services and experiences for all involved. These advancements will individually and cumulatively help us to expand access, improve quality and moderate costs.

Appropriate and necessary health care made available to all people at an allordable cost is consistent with everyone's definition of success, and can clearly be viewed at the broadest level as uncompromised public good. It will require thoughtful leadership since in this effort, changes to flow,we approach varing for each other within our society must secure a multiple levels and include spending trace or some cases and less in others, and in all simulains, advergang optimum quality for what is provided

The magnitude of the estallenges in health care, combined with ideology, lead some to propose preemptive or undateral actions; however, as a condity we can only succeed (mongh cooperative effores by the public and private sectors. It will require critical thinking, flexibility, willingness to make to strong a pain golden for tradition of traditional factorial and digital and single pair reacting all collections the health care intrastructure. To accomplish througoveriment should work with business, provisions ing tendenotary of the physical firm but, and other care of the state of the subject of the physical physical control of the physical phys together with fosprofit companies. Strong national policies must been the basic for our actions

The private sector, which has already made and is continuing to make immense investments in technology to simplify health care processes, increasing fliciency, redince errors, distribute information and organize health-care delivery and support resources, should execute on these policies. We believe the results of such an appropriate can are agreent sufficient capacity to provide high equality and more alfordable health carelly) everyone. As the same fight, we can continue to toget the diffiners in health care that our trainmental its health-related enterprises are imagnets able to deliver - to conritizeng, as well as for the rest of the world.



The dynamic that could be exerted by engaging the positive stability and breadth of responsibility of our government, coupled with the propensity to drive change and innovation embedded in pravate emerprise, can lead to success just as it has in many other endeavors in this country. Our nation has the ability to make this work. We must move from discussion and debate to action. Tools for improvement are available. Resolve is necessary. Implementation must occur more argently.

Affordable health care for all Americans can become a reging. But for this to happen, we must establish a stronger toothig of scientifically based decision-making, recate process simplification and improvement based on modern technological capabilities, and mandate a realistic set of essential health benefits for everyone. As we move shead in this pursuit, we at United Health Group are pleased to be at a stage where our contributions are incaningful, our capabilities are growing in a rashion that can advance innovation, and our results continue to demonstrate the value of our services to a diverse and large group of constituents

Building or years of successful impolations and interventions faceypand access share information and make services more affordáble. UnnedLjeájth Group again enners a new vear in a very snong position. Our communem to these efforts is unwavering, and we will continue to strive to make health care work better tor everyone...

Sim erely.

William W. W. Course William AV. McGaire, M.D.

Chairman and Chief Executive Officer

## Innovative leadership to make health care work better

Promoting care advocacy. UnitedHealth Group introduced unique programs for patient advocacy in 1999, in response to increased fragmentation in care delivery, greater complexity in disease treatment and human resource constraints surrounding care. Now widely recognized for their value in improving health care, the initial efforts have evolved into sophisticated services that apply technology and database analytic tools to help identify and climinate the gaps in care that can lead to inappropriate, unsale and imadequate use of precious health care resources. Successful in realizing these goals, such one coordination and facilitation services help physicians and patients organize access to needed services that improve quality and avoid costly complications and have been integrated into many care systems across America, As people grow older and live with more chronic disease, and new medical technology and treatments proliferate, the value of these patient and care advocacy programs will continue to increase.

Enhancing access to the best quality health care through Centers of Excellence. Recognizing the unique expertise of selected health care facilities and physicians to treat highly complex and rare diseases, UnitedHealth Group has for more than 15 years championed Centers of Excellence programs The initial effort focused on organ transplantation and has grown to a preemittent service currently available to more than 42 million Americans. That experience also produced unique methodological design and data assessment expertise that is now being applied to other specialized networks of hospitals and physicians. The resulting designation of and across to high-performing hospitals and physicians for challenging clinical conditions - such as cardiac and congenital heart disease, cancer and musculoskeletal disorders — is a model for facilitating cost-effective access to the best treatment individualized around the needs of the specific patient. The Centers of Excellence concept is noting to more regional and local centers that optimize clinical outcomes and ensure appropriate costs for more common but still significant medical conditions.

Addressing the needs of older Americans. As a leading advocate for the health and well-being of older people. UnitedHealth Group created a dedicated business to meet the health-related needs of people age 50 and offer. Focused on the changing health issues and meds of this dynamic population instead of a simple product, this approach has helped expand health care coverage through the use of medical supplement plans, provide more affordable prescription drugs, apply care advocacy approaches to help care for trait, elderly and chromeally ill individuals, and begin to address the challenges faced by pre-Medicare retirees.

Personalizing services for medically underserved individuals. UnnedHealth Group has extended its expertise in rare advocacy to more than I million andividuals who participate in state-sponsored health care programs - those who have often lacked access to health care services. These efforts confinecommunity-based care networks with preventive services and intensive case management, including personalized social omreach and education programs, to serve the complex and unique needs of individuals in these settings. Specialized personal health service coordinators are used to target the most frequent causes of severe health conditions in medically underserved communities, including asthma. diabetes, sickle cell disease and high-risk pregnancies, to help people achieve and sustain better overall health while using health resources more appropriately.

Improving practice quality through physician data-sharing. An executal component of quality health, care delivery is the continuous refinement of climent practice based on critical analysis of performance and ourcomes for individual physicians and medical practices. United fealth Group has created database analytic tools that allow for the regular evaluation of clinical performance against evidence-hased standards and expert physician guidance; and subsequent feedback of the gesults to individual physicians for their continued professional development. Howing championed this type of physician data-diaring and positive leedback for more than a decade, the company has lostered significantly improved physician compliance with best standards, leading to cost-effective, quality chuical outcomes,

Promoting affordable and appropriate use of pharmaceuticals. Since creating the first truly integrated pharmaceutical management enterprise in the 1980s. United beauth Group has been a pioneer and leader in the innovation, design and procurement of pharmaceutical products and services, making them mure agressible and affordable, in addition to helping ensure they are used-safely and it a minner that will achieve optimal health outcomes. Today, United Pharmaceutical Solutions serves more than to million individuals through creation of impatient pharmacentral benefit programs, discount pinchasing of medicines, clinical interaction with physicians and other disease management entities. programs locused on injectable drugs, and issistance in managing the nation's feiding drug benefit card that serves nearly 2 million seniors.

Engaging consumers in health care decisions. Health savings accounts and flexible spending accounts give consumers greater control as well as greater financial accountability for health care decisions. United/Health Group, through its dedicated Consumer and Financial Services business unit, is at the forefront in individual consumer-driven products and capabilities using consumer cards. Through these programs, employers can leverage the busing power of more than 50 million people from United/Health Group companies and affiliates to make their consumer dollar go further and deliver more value. This helps achieve broad, affordable access to quality care and resources across the widest spectrum of care services, including medical, dental, vision, behavioral, chiropeactic and other ancillary and complementary services. To support better personal health care decisions, new and enhanced futernet information tools on mynths.com\* enable consumers to research the best treatment options, physicians and facilities for care, as well as find estimates of treatment costs for specific health care services in their immediate geographic areas.

Simplifying health care processes. Innovative new medical ID cards use the latest magnetic stripe technology combined with the convenience of the MasterCard\* network to provide easy, on-the-spot verification of patient eligibility for medical services as well as benefit information. In addition, consumer account stored-value cards enable consumers to pay health-related expenses directly from their fiealth savings accounts, thexible spending accounts and personal benefit accounts. Open architecture Internet portals for individuals, employers, physicians and brokers offer real-time access to self-service capabilities, such as online enrollment, billing, claim inquiry, claim submission, claim partient, benefit inquiry and physician selection. These Internet portals are now widely available through UnitedHealth Group and are used regularly by more than 3 million households representing more than 6 million people; 450,000 active registered physician and care provider user sites. 180,000 comployers and 45,000 brokers. In 2004, more than 50 different transaction options will be available and more than 160 million transactions will be conducted using our Internet service portals—improving service quality, efficiency and accuracy, while also lowering costs.

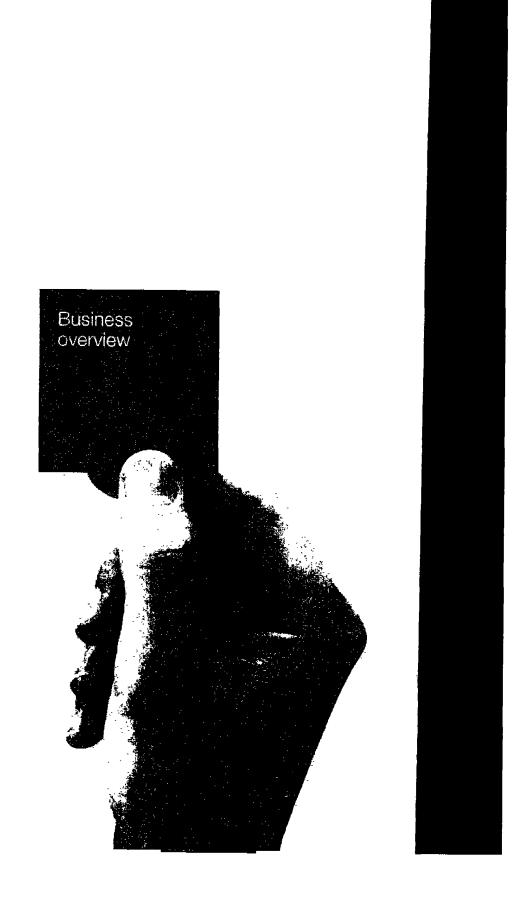
Addressing disparities in health care. Against the backdrop of the recent Institute of Medicine report "Unequal Treatment", that documents the unacceptable variations in the quality of health care and health status experienced by minority and other populations of Americans. UntertHealth Group has entered into partnerships with the federal Agency for Healthcare Research and Quality and the Foundation for Accountability to design and conduct analyses of variances in care delivery from national standards, and to provide innovative decision-support tools that apply to minority communities on the consumer Internet portal.

## United Health Foundation — Making a difference in health care

Advancing evidence-based medicine. It is increasingly apparent that the basis for quality health care delivery and optimal outcomes is grounded in the successful translation of the best scientific evidence into clinical practice. In response to this need, the United Health Foundation, a private, nonprofit foundation funded solely by UnitedFlealth Group, twice a year distributes Clinical Evidence free of charge to more than 500,000-of our nation's physicians, physicians-in-training and nurses. Clinical Evidence is a comprehensive, international source for the best available information on the effective care protocols for more than 1,000 medical conditions, compiled by one of the most respected organizations in medicine, the BMJ Publishing Group (formerly the British Medical Journal).

Advancing community-based clinics. The United Health Toundation has provided grains to Unity Health Care, Inc. in Woshington, D.C., and Now York Chy-based Children's Health Fund to introduce new Centers of Excellence models designed to improve access to qualify health care in medically inderserved communities, Multi-year support from the United Health Foundation funds health care teams that deliver integrated and community-based care services and tagget important medical challenges such as infant monality, cardiovascular disease, diabetes and anthum. Through this initiative, thousands of children and adults will receive quality, comprehensive health care that would otherwise not be available. The project will also help the development of new models for cost-effective care that can be replicated throughout the nation.

Improving the health of America's communities. Through a parinership with the American Public Health Association and the Partnership for Prevention, the United Health Foundation publishes America's Health State Health Hankings, an annitial comprehensive state-by-state analysis of health status throughout the nation. This report, which is based on data from the U.S. Departments of Health, Commerce, Education and Labor, highlights positive trends in public health as well as significant challenges that require attention, thereby taggeting the efforts of individuals, families, community leaders, employers and public officials to improve their own health and the overall health of their communities.





UnitedHealth Group is a diversified health and well-being company, serving approximately 52 million individual Americans.

## How we've positioned ourselves for near-term and long-term success

- > We are built around three core competencies essential to our focus on making the health care system work better; advanced technology-based transactional capabilities; health care data, knowledge and informatics; and health care resource organization and care facilitation.
- > We operate through discrete, diversified businesses that focus on the needs of specific market segments.
- We community invest in the future, spending more than \$2.2 billion on research, development and capital expenditures, largely for technology and clinical performance advancement services, over the past six years.

### How we're making health care work better

## We enhance access to health and well-being services.

- We leverage the aggregate busing power of millions of Americans to achieve greater affordability.
- In the increasingly complex health care environment, our physician and consumer outreach services help individuals access, coordinate and manage the services they need.
- Through our family of businesses, we provide a comprehensive array of consumer-oriented services to meet the full spectrum of health and well-being needs.

## We apply technology to simplify health care administration.

- Common operating systems and service platforms enable seamless integration of services, streamlining benefits administration.
- Technology improvements drive progressively higher levels of quality and service consistency.
- > for employers, consumers and physicians alike, practical rechnology solutions speed health care interactions, reduce paperwork and lower costs

## We gather and share information to achieve improved health outcomes.

- > We aggregate and integrate data from employers, insurance companies and other payers, pharmaceinical and laboratory services providers, hospitals and other participants across the health system to enable meaningful chifical and economic analyses.
- We provide data services and tools that help employers and other payers monitor militation patterns and control rising-costs.
- > We promote evidence-based medical care by providing consumers, physicians and other health care providers with relevant, actionable information about clinical quality and decision processes.
- > Our clinical research capabilities and related services support the development of new therapeutic compounds and devices.

## How we've performed

- The compound annual geneth rate for revenues was 32 percent over the past 15 years and stock appreciation has averaged 43 percent per year over the same time frame;
- > Earnings per share growth has averaged 36 percent per year since 1989.

(in millicum)		2003		2002		2001
Revenues	Ş	28,523	\$	25.020	\$	23,454
Earnings From Operations	\$	2,935	\$	2.186	\$	1.566
Operating Margin		10.2%		8.7%		6.7%
Cash Flores From Operating Activities	\$	3,003	\$	2,423	· <b>\$</b> ,	1,844
Return on Net Assets		43.7%		37.5%		30.7%
Return on Shareholders' Equity		39.0 %	_	33,0%		24.5%

Specialized Care Services is the nation's most comprehensive platform for specialty health and wellness benefits, services and resources.



ACN Group\* chropractic care, physical theraps and alternative and complementary medicine services

Dental Benefit Providers dental in tworks and services

HealthAllies\*
Consumer driven
health care access
and purchasing
programs

National Benefit Resources Lost transactuent

cost management services and consulting for matteres, third-parts administrators and employers

Optura\* care hechtation, disease and condition management, and health information services

Speciara\* comprehensive usion services and products Unimerica accident, short-term disability and life insurance products

United Behavioral Health behavioral health and substance abuse services

United Resource Networks critical illness petworks and services

Working Solutions employée assistance programs

### How we're making health care work better

## We improve access to specialty health and well-being services.

- > We offer services through a arriety of channels; businesses, and user groups, expanding access to important specialty programs. As a result, we directly serve more than 44 million individuals who have one or more of the products and services we offer through our 10 husiness units. Our specialty networks address a growing range of specialty and ancillary needs:
- » Simple, modular product and service designs with a wide range of price points enable insurers, employers and individuals to select specialty benefits that murch their unique needs. Integrated operating platforms, supported by a Six Signueside quality environment, also enable customers to conling specialty services seamlessly-with basic medical benefits.
- $\simeq A\, torus$  on operating efficiency coupled with group parchasing power helps moderate cost and improve allocalishs.

## We help individuals use health care services more effectively.

- Care management services help improve the effectiveness and quality of gife for people with chronic conditions by facilitating acress to care services, delivering patient education and support, and providing complex case management services.
- > Through various Optum. United Behavioral Health and Working Solutions services, consumers drave easy access to credible information about health conditions, treatment options and other forused support, such as employee assistance programs that link individuals to master speed competers, financial and legal resources, and care expects:

## We help people with critical illnesses achieve quality outcomes, while lowering costs.

Access to highly distinguished Centers of Excellence for the treatment of complex and critical medical conditions, including transplantation, cancer and heart disease; can markedly improve outcomes and lower costs. Expansion of these corners, structured ground specific data that demonstrates superior results, is addressing the needs surrounding other important medical conditions, such as intertility.

(ાત માર્તી (ત. છૂડ)	2003	2002	3001
Revenues	\$ <u>1</u> ,878 \$	1,509	\$ 1.254
Earnings From Operations	\$ 385 \$	286	\$ 214
Operating Margin	20.5%	19.0%	17.172
Return on Net Assets	59.1 %	50.74	59.4 %



Uniprise is the nation's leading provider of health benefits services for large organizations.

## How we're making health care work better

We make it easier and more effordable for large organizations to deliver comprehensive health benefits and services.

> We provide customized, integrated benefit plans and operational support services for 9,5 million individuals and 345 large, muhi-location employers, nearly 200 of which are in the Factors 500.

## We simplify, innovate and make the administration of health care more affordable.

- Through a broad range of services, technologies and process innotations. Uniprise is advancing and modernizing the health care experience. Our initiatives make health care interactions simpler and easier and seek to make the experience of accessing and using health care services more like a consumer tetail buying experience, thereby involving the consumer directly and responsibly. Building on each other, these efforts simplify and streamline the health care experience, lower basic costs and increase the speed of health care interactions. The ultimate goal is similar to what has been achieved in many non-health care industries: to deliver services better, laster and cheaper.
- Six Sigma-style quality disciplines are applied to continuously improve service quality, while advancing greater productivity and affordability.
- Internet service portals provide convenient, low-cost information and service channels for consumers, emplosers, brokers, and physicians and health care providers. Through mynhc.com, individuals order ID cards, check claim stams, research health and well-being topics, find a physician and learn about treatment options and costs. Physicians and other health care providers use United Fealthcare Online' to submit and track claim payments and look up patient benefit eligibility. Employer eService(\* enables employers to manage and track health benefits in real fine.
- Newly introduced electronic medical ID cards use magnetic stripe technology and the MasterCard\* system and network to make it easy to verify patient eligibility and benefits in minutes.— anywhere, anytime.
- New consumer account stored-value cards enable consumers to pay health-related expenses. directly from their flexible spending accounts and personal benefit accounts

## We engage consumers in health care decisions,

- > Uniprise provides consumer-directed benefit plans that promote costsharing with employees and offer varving levels of consumer engagement in health care decision-making
- iPlant an example of the most complete consumer-directed health plan uption, combines high-deductible medical coverage linked to an employer-funded Personal Benefit Account and includes information tools. personal care assistance services, preventive health benefits and financial incentives that help individuals use health care resources wisely,

(in-mallkons)	2003		2002	2001
Revenues	\$ 8,107	\$	2,725	\$ 2,474
Earnings From Operations	\$ 610	\$.	517	\$ 382
Operating Margin	19.6%		19.0%	 15.4%
Return on Net Assets	 55.2%		48.7%	38.0%



UnitedHealthcare provides the most innovative and comprehensive, consumer-oriented health benefit plans and services to small and mid-sized employers and individuals nationwide.

### How we're making health care work better

#### We make access to services broader.

- United Healthcare contracts with more than 400,000 physicians and 3,000 hospitals nationwide. In addition, we provide access to a full array of specialty services and resources that augment basic medical care,
- We provide the most comprehensive array of monance and health benefit products and services, from simple individual health coverage to services for the largest, most complex groups. Personal benefit accounts and health savings accounts are available within all id oin benefit offernigs.
- Innovative pharmaceutical management programs provide access to a large fietwork of pharmacies, a complete selection of generic and brand-name drugs, and a convenient home delivery program. A flexible benefit model provides consumers with a wide range of drug choices and copacinem levels.

#### We hêlp make health care better.

- > Innovative clinical outreach programs-help identify and fill gaps in care. Disease and condition management programs support chronically ill patients with complex illnesses.
- Our consumer information and support services encourage people to follow preventive guidelines and offer access to credible health information via the laternet, audio messages or by speaking with registered nuises and master's-level counselors.
- Centers of Excellence programs, focused on both the hospitals and physicians providing care, improve results and lower costs for complex conditions, such as organ transplantation, cancer and cardiac disease.
- As part of our pharmacy management program, we use supplisticated that applications that analyze drug utilization patterns and segren for safe userol medications prior to dispensing.

### We make it all more affordable.

- > We aggregate the buying power of millions to achieve the broadest access for the lowest price, including access to pharmacenticals, medical devices and diagnostic testing an the lowest price.
- > Through care facilitation mitiatives and technology, we proactively identify the people most in need of care and ensure they have acress to the most appropriate services to improve and mountain their health and well-being, lielping to prevent the excessive cost of complications that occur from lack of care,
- Que information services help physicians and other gage providers, as well as those who need care. make the best decisions to achieve the best outcomes.
- Our leading technology simplifies and automates complex, fragmented health care transactions providing accurate service the first time for a low cost,
- We empower consumers, physicians and other health care providers with free access to self-service. capabilities that are available 24 hours a day, seven days a week
- > We use Six Sigmastyle quality disciplines to find and temove inefficiency and waste in the health care seyem.

## Financial performance—Health Care Services

implicates the husinesses of Landell lealthcare Ocations and Americ hours

(ity millions)	2003	2002	2001
Revenues	\$ 24,807	\$ 21,552	\$ 20,403
Farmings From Operations	\$ 1,865	\$ 1,328	\$ 936
Operating Margin	7.5%	62%	1.6 %
Remove on Net Assets	40.5 %	35,537	29,0 %



Ovations is the largest U.S. business dedicated to serving the health and well-being needs of people age 50 and older.

## How we're making health care work better

We enhance the quality, affordability and security of health care for people over age 50.

- > We represent the nation's largest Medicare supplement business, serving nearly 1 million seniors carrolled in AARP Health Care Options.
- We provide network-based health benefit products to 230,000 people eligible for Medicare, including Medicare+Choice products and new Medicare preferred provider plans as part of a pilot mitiative with the federal government through the Centers for Medicare and Medicard Services (CMS).
- For employers to achieve the best health coverages available to retiries, we offer group coverage options in all 50 states.

## We make prescription drugs more affordable for older Americans.

We offer the nation's largest and most popular pharmacy discount eard program, along with pharmacy mail service and merchandise offerings of healthy living products, serving nearly 2 million people.

## We improve the quality of life for elderly individuals and people with chronic illnesses.

- Through Esercare: we provide individualized care services for more than 65,000 frail ar chronically ill individuals across the full continuum of care settings, including at home.
- We operate one of America's largest networks of specialized geriatric care teams, including physicians. nurse practitioners and support staff. We serve the British National Health Service, helping to develop and provide care services for older individuals in order to optimize health resources.
- We offer Even are Connections, a new service for adult children to help provide care advocacy and support for aging parents.



#### Who we are

AmeriChoice delivers network-based health care and personal care management services to more than 1 million individuals who participate in state-sponsored health care programs.

## How we're making health care work better

We help states make high quality health care services available to people who would otherwise tack coverage because of social and economic factors.

- > We work with more than a dozen states to deliver Medicald and other health care services.
- We offer comprehensive preventive care services and a maternal and obstetrical programs which work preservely to help individuals maintain good health status. Through our Personal Care Model, we tocas on helping individuals with serious and chronic health conditions preserve optimal health by coordinating access to care services from physicians; other health care providers, and government and community-based resources.
- > We develop effication and outreach programs with leading researchers and clinicians to target and intervene in severe illnesses common among AmeriChoice consumers, such as asthma, diabetes, sickle cell disease and complicated pregnancy.
- » We pioneered the use of telemedicine to enable our cure management nurses and clinicians to monitor vital signs, theek medication use and facilitate care.



Ingenix provides health care data, technology and analytics services to more than 250,000 physicians, 3,000 hospitals, 2,000 payers, 100 Fortune 500 companies and 140 pharmaceutical and biotechnology companies.

## How we're making health care work better

We use data and information to solve key health care issues.

The Ingenix Galaxy database is the largest integrated database in the marker with 18 teralistes of information. It combines medical, laborators

and pharmacy data elements to enable comprehensive assessment and evaluation of issues related to clinical quality and costs, including prospective views on illness and needed interventions, it is used by an ever-growing number of employers, health plans, insurers, unconediaries and care providers.

Ingenix provides analytics, applications and consulting services to strengthen health care administration and advance health outcomes.

- > Ingenix decision management services, actuarial services, clinical cost trend reporting and forecasting services, and predictive modeling tools help customers better understand methcal cost irends, quality of care measures, utilization rates and the efficacy of new therapies and compounds. Benchmarking data helps clients compare and contrast costs, drive performance improvement, develop risk-based disease intervention strategies, and improve consumer choice and accountability.
- Physicians and payers use Ingenix billing and compliance solutions to streamline billing practices. maximize reimbursements and detect claim errors. In addition, as electronic connectivity within the health care inclusive advances, Ingenix is poised to deliver data applications and analytics directly to physician desktope and other points of care, where the information can be best used to improve health care delivery and reduce costs.
- Fraud and abuse detection and prevention services, benchmarking databases and compliance services provide tools that lielp health care payers monitor core business processes.

## We help blomedical and pharmaceutical firms bring products to market safely.

- i3 Research is our full-service, global clinical research organization (GRO) specializing in ourologs. central nervous system, and respiratory and infections disease. With offices portletide and capabilities in more than 45 countries, i3 has the resources to launch clinical totalwall over the world — from complex multinational trials to smaller studies in specialized patient populations.
- > 33 services include traditional clinical trial management capabilities, complemented by additional services such as feasibility assessments and protocol review, document submission, and comprehensive data and biostatistics services. We draw un the resources of more than 24,000 investigators at sites around the world.
- 5 Ingenix is a leader in medical education and communications, delivering education programs, interactive communications tools and publications services to inform and educate the medical community about new clinical treatments, therapies and practices,

(in trillianis)		2003	 2002		2001
Revenues		574	\$ 491		147
Earnings From Operations	. \$	75	\$ 55	*	48:
Operating Margin		13.1%	 112%		40.7%
Return on Net Assers		9:7%	7:65		7,5%.

# Financial review

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## **Financial Highlights**

For the Year Ended December 31, (in millions, except per share data)	2003	2002	2001	2000	1999
CONSOLIDATED OPERATING RESULTS					
Revenues	\$ 28,823	\$ 25,020	\$ 23,454	\$21.122	\$ 19,562
Earnings From Operations	\$ 2,935	\$ 2,186	\$ 1.566	\$ 1.200	\$ 943
Net Earnings	\$ 1,825	\$ 1,352	\$ 913	\$ 736	\$ 568
Return on Shareholders' Equity	39.0%	33.0 %	24.5%	19.8 %	14.1 %
Basic Net Earnings					7 1-2 /0
per Common-Share	\$ 3.10	\$ 2.23	\$ 1.46	\$ 1.14	\$ 0.82
Diluted Net Earnings	,		• •-•-	•	<b>V</b> 0.02
per Common Share	\$ 2.96	\$ 2.13	\$ 1.40	\$ 1.09 1	\$ 0.80 °
Common Stock Dividends per Share	\$ 0.015	\$ 0.015	\$ 0.015	\$ 0.008	\$ 0.008
CONSOLIDATED CASH FLOWS FROM (USE	D FOR).				
Operating Activities	\$ 3,003	\$ 2,423	\$ 1,844	\$ 1,521	\$ t,189
Investing Activities	\$ (745)	\$ (1,591)	\$ (1,138)	\$ (968)	\$ (623)
Financing Activities	\$ (1,126)	\$ (1, <del>142</del> )	\$ (585)	\$ (739)	\$ (605)
CONSOLIDATED FINANCIAL CONDITION (As of December 31)					
Cash and Investments	\$ 9,477	\$ 6,329	\$ 5,698	\$ 5,053	\$ 4.719
Total Assets	\$ 17,634	\$ 14.164	\$ 12,486	\$ 11,053	\$ 10,273
Debt	\$ 1,979	\$ 1,761	\$ 1,584	\$ 1.209	\$ 991
Shareholders' Equity	\$ 5,128	\$ 4,428	\$ 3,891	\$ 3,688	\$ 3,863
Debt-to-Total-Capital Ratio	27.8%	28,5 %	28.9%	24.7 %	20.4 %

Financial Highlights and Results of Operations should be read together with the accompanying Consolidated Financial Statements and Notes. Financial flighlights and Results of Operations should be read together with the accompanying Consolidated Financial Statements and Notes.

1 2000 results include a \$14 million net permanent tax benefit related to the contribution of UnitedHealth Capital investments to the United Health Foundation and a \$27 million gain (\$17 million after tax) related to a separate disposition of UnitedHealth Capital investments. Excluding these items for comparability purposes, 2000 not retarrings and diluted earnings per common share were \$703 million and \$1.05 per share, and return on shareholders' equity was 19.0%.

2 1909 regults include a retarrement tax benefit primitedy related to the contribution of UnitedHealth Capital investments to the United Health Foundation. Excluding this benefit for comparability purposes, net earnings and diluted net earnings per common share were \$368 million and \$0.79 per share.

## **Results of Operations**

#### **BUSINESS OVERVIEW**

UnitedHealth Group is a leader in the health and well-being industry, serving approximately 52 million Americans. Our primary focus is on improving the American health care system by simplifying the administrative components of health care delivery, promoting evidence-based medicine as the standard for care and providing relevant, actionable data that physicians, health care providers, consumers, employers and other participants in health care can use to make better, more informed decisions.

Through our diversified family of businesses, we leverage core competencies in advanced technology-based transactional capabilities; health care data, knowledge and informatics; and health care resource organization and care facilitation to make health care work better. We provide individuals with access to quality, cost-effective health care services and resources. We promote the delivery of care, consistent with the best available evidence for effective health care. We provide employers with superb value, service and support, and we deliver value to our shareholders by executing a business strategy founded upon a commitment to balanced growth, profitability and capital discipline.

## 2003 FINANCIAL PERFORMANCE HIGHLIGHTS.

UnitedHealth Group had a very strong year in 2003. The company continued to achieve diversified growth across its business segments and generated net earnings of \$1.8 billion and operating cash flows of \$3.0 billion, representing increases of 35% and 24%, respectively, over 2002. Other financial performance highlights include:

- > Diluted net earnings per common share of \$2.96, representing an increase of 59% over 2002.
- > Revenues of \$28.8 billion, a 15% increase over 2002.
- > Operating earnings of more than \$2.9 billion, up 34% over 2002.
- Consolidated operating margin of 10.2%, up from 8.7% in 2002 driven primarily by improved margins on risk-based products; a product mix shift from risk-based products to higher-margin, fee-based products, and operational and productivity improvements.
- > Return on shareholders' equity of 39.0%, up from 33.0% in 2002.

## 2008 RESULTS COMPARED TO 2002 RESULTS

## Consolidated Financial Results

#### Revenues

Revenues are comprised of premium revenues from risk-based products; service revenues, which primarily include fees for management, administrative and consulting services; and investment and other income.

Premium revenues are primarily derived from risk-based health insurance arrangements in which the premium is fixed, typically for a one-year period, and we assume the economic risk of funding our customers' health care services and related administrative costs. Service revenues consist primarily of fees derived from services performed for customers that self-insure the medical costs of their employees and their dependents. For both premium risk-based and fee-based customer arrangements, we provide coordination and facilitation of medical services, transaction processing customer, consumer and care provider services, and access to contracted networks of physicians, hospitals and other health care professionals.

Consolidated revenues increased by \$3.8 billion, or 18%, in 2003 to \$28.8 billion. Consolidated revenues intreased by approximately 11% as a result of rate increases on premium and fee-based structures and growth across business segments, and 4% as a result of revenues from businesses acquired since the beginning of 2002. Following is a discussion of 2003 consolidated revenue trends for each of our three revenue components.

Premium Revenues Consolidated premium revenues in 2003 totaled \$25.4 billion, an increase of \$3.5 billion, or 16%, over 2002. UnitedHealthcare premium revenues increased by \$1.8 billion, driven primarily by average premium rate increases of 12% to 13% on renewing commercial risk-based business. Premium revenues from Medicalid programs also increased by approximately \$1.0 billion over 2002. Approximately 70% of this increase resulted from the acquisition of AmeriChoice on September 30, 2002, with the remaining 30% driven by growth in the number of individuals served by our AmeriChoice Medicaid programs since the acquisition date. The remaining premium revenue growth in 2003 was primarily driven by growth in the number of individuals served by Ovations' Medicare supplement products provided to AARP members and its Evercare business, along with growth in several of Specialized Care Services' businesses.

Service Revenues Service revenues in 2003 totaled \$3.1 billion, an increase of \$224 million, or 8%, over 2002. The increase in service revenues was driven primarily by aggregate growth of 7% in the number of individuals served by Uniprise and United Healthcare under fee-based acrangements during 2003.

Investment and Other Income Investment and other income totaled \$257 million, representing an increase of \$37 million over 2002, due primarily to increased capital gains on sales of investments. Net capital gains on sales of investments were \$22 million in 2003, compared with net capital losses of \$18 million in 2002. Interest income decreased by \$5 million in 2003, driven by lower yields on investments, partially offset by the impact of increased levels of cash and fixed income investments.

#### Medical Costs

The combination of pricing, benefit designs, consumer health care utilization and comprehensive care facilitation efforts is reflected in the medical care ratio (medical costs as a percentage of premium revenues)..

The consolidated medical care ratio decreased from 83.0% in 2002 to 81.4% in 2003. Excluding the AARP business, the medical care ratio decreased 140 basis points from 81.4% in 2002 to 80.0% in 2003. Approximately 30 basis points of the decrease in the medical care ratio was driven by favorable development of prior period medical cost estimates as further discussed below. The balance of the medical care ratio decrease resulted primarily from net premium rate increases that exceeded overall medical benefit cost increases and changes in product, business and customer mix.

Each period, our operating results include the effects of revisions in medical cost estimates related to all prior periods. Changes in medical cost estimates related to prior fiscal years that are identified in the current year are included in total medical costs reported for the current fiscal year, Medical costs for 2003 include approximately \$150 million of favorable medical cost development related to prior fiscal years. Medical costs for 2002 include approximately \$70 million of favorable medical cost development related to prior fiscal years.

On an absolute dollar basis, 2003 medical costs increased \$2.5 billion, or 14%, over 2002. The increase was driven primarily by a riso in medical costs of approximately 10% to 11% due to medical cost inflation and a moderate increase in health care consumption, and incremental medical costs related to businesses acquired since the beginning of 2002.

Management believes dischaute of the medical care ratio excluding the AARP business is meaningful since underwriting game or inster related to the AARP business accurate to AARP policyholders through a title washington (RSF). Although the company as title for underwriting loues to the extension of th

### **Operating Costs**

The operating cost ratio (operating costs as a percentage of total revenues) for 2003 was 16.9%, down from 17.5% in 2002. This decrease was driven primarily by revenue mix changes, with greater growth from premium revenues than from service revenues, and productivity gains from technology deployment and other cost management initiatives. Our premium-based products have lower operating cost ratios than our fee-based products. The impact of operating cost efficiencies in 2003 was partially offset by the continued incremental costs associated with the development, deployment, adoption and maintenance of new technology releases.

On an absolute dollar basis, operating costs for 2003 increased \$488 million, or 11%, over 2002. This increase was driven by a 6% increase in total individuals served by Health Care Services and Uniprise during 2003, increases in broker commissions and premium taxes due to increased revenues, general operating cost inflation and additional operating costs associated with change initiatives and acquired businesses.

## Depreciation and Amortization

Depreciation and amortization in 2005 was \$299 million, an increase of \$44 million over 2002. This increase was due to additional depreciation and amortization from higher levels of computer equipment and capitalized software as a result of technology enhancements, business growth and businesses acquired since the beginning of 2002.

#### Income Taxes

Our effective income tax rate was 35.7% in 2008, compared to 35.5% in 2002. The change from 2002 was due to changes in business and income mix between states with differing income tax rates.

## **Business Segments**

The following summarizes the operating results of our business segments for the years ended December 31 (in millions):

REVENUES			<b>=</b>
	2003	2002	Pércent Change
Health Care Services	\$24,807	\$ 21,552	15%
Uniprise	3,107	2,725	14%
Specialized Care Services	1,878	1,509	24%
Ingenix Corporate and Eliminations	574	491	17%
	(1.543)	(1,257)	nin
Consolidated Revenues	\$28,825	\$ 25,020	.15%
EARNINGS FROM OPERATIONS		•	
	2003	2002	Percent Change
Health Care Services	\$ 1,865	\$ 1,328	40%
Uniprise	610	517	18%
Specialized Care Services	385	286	35%
Ingenix	75	55	<b>36%</b>
Consolidated Earnings From Operations on — not meaningful	\$ 2,935	\$ 2.186	34%

#### Health Care Services

The Health Care Services segment consists of the UnitedHealthcare, Ovations and AmeriChoice businesses. UnitedHealthcare coordinates network-based health and well-being services on behalf of local employers and consumers. Ovations delivers health and well-being services to Americans over the age of 50, including the administration of supplemental health insurance coverage on behalf of AARP. AmeriChoice facilitates and manages health care services for state Medicaid programs and their beneficiaries.

Health Care Services had revenues of \$24.8 billion in 2003, representing an increase of \$3.3 billion, or 15%, over 2002. The majority of the increase resulted from an increase of \$1.9 billion in UnitedHealthcare revenue, an increase of 14% over 2002. The increase in UnitedHealthcare revenues was driven by average premium rate increases of approximately 12% to 13% on renewing commercial risk-hased business and 8% growth in the number of individuals served by fee-based products during 2003. Revenues from Medicaid programs in 2003 increased by \$1.0 billion over 2002. Approximately 70% of this increase resulted from the acquisition of AmeriChoice on September 30, 2002, with the remaining 30% driven by growth in the number of individuals served by AmeriChoice Medicald programs since the acquisition date. Ovations revenues increased by \$319 million, or 5%, primarily due to increases in the number of individuals served by both its Medicare supplement products provided to AARP members and by its Evercare business.

Health Care Services carnings from operations in 2003 were nearly \$1.9 billion, representing an increase of \$537 million, or 40%, over 2002. This increase primarily resulted from revenue growth and improved gross margins on UnitedHealthcare's risk-based products, growth in the number of individuals served by UnitedHealthcare's fee-based products, and the acquisition of AmeriChoice on September 30, 2002. UnitedHealthcare's commercial medical care ratio improved to 80.0% in 2003 from 81.8% in 2002. Approximately 40 basis points of the decrease in the commercial medical care ratio was driven by the favorable development of prior period medical cost estimates, with the balance of the decrease resulting from net premium rate increases that exceeded overall medical benefit cost increases and changes in business and customer mix. Health Care Services' 2003 operating margin was 7.5%, an increase of 130 basis points over 2002. This increase was driven by a combination of improved medical care ratios and a shift in commercial product mix from risk-based products to higher-margin, fee-based products.

The following table summarizes the number of individuals served by Health Care Services, by major market segment and funding arrangement, as of December 311;

(in thousands)	2003	2002
Commercial		EUGZ
Risk-Based	5:400	5.070
Fee-Based	2.895	2.715
Total Commercial	8,295	7,785
Medicare	230	225
Medicaid	1,105-	1,030
Total Health Care Services	9,630	9,040
4	21000	טרעוכ

<sup>3.</sup> Excludes individuals served by Ovations Medicare supplement products provided to AARP members.

The number of individuals served by UnitedHealthcare's commercial business as of December 31, 2003 increased by 510,000, or 7%, over the prior year. This included an increase of 180,000, or 7%, in the number of individuals served with fee based products, driven by new customer relationships and existing customers converting from risk-based products to fee-based products. In addition, the numberof individuals served by risk-based products increased by \$30,000. This increase was driven by the acquisition of Golden Rule Financial Corporation (Colden Rule) in November 2003, which resulted in

the addition of 430,000 individuals served, partially offset by customers converting to self-funded, fee-based arrangements and UnitedHealthcare's targeted withdrawal of risk-based offerings from unprofitable arrangements with customers using multiple benefit carriers.

Ovations' year-over-year Medicare+Choice enrollment remained relatively stable, with 230,000 individuals served as of December 31, 2003. Medicaid enrollment increased by 75,000, or 7%, due to strong growth in the number of individuals served by AmeriChoice over the past year.

#### Uniprise

Uniprise provides network-based health and well-being services, business-to-business transaction processing services, consumer connectivity and technology support services to large employers and health plans. Uniprise revenues in 2009 were \$3.1 billion, representing an increase of 14% over 2002. This increase was driven primarily by growth of 6% in the number of individuals served by Uniprise during 2003, annual service fee rate increases for self-insured customers, and a change in customer funding mix during 2002. Uniprise served 9.1 million individuals and 8.6 million individuals as of December 51, 2003 and 2002, respectively.

Uniprise earnings from operations in 2008 were \$610 million, representing an increase of 18% over 2002. Operating margin for 2003 improved to 19.6% from 19:0% in 2002. Uniprise has expanded its operating margin through operating cost efficiencies derived from process improvements, technology deployment and cost management initiatives that have reduced labor and occupancy costs in its transaction processing and customer service; billing and enrollment functions. Additionally, Uniprise's infrastructure can be scaled efficiently, allowing its business to grow revenues at a proportionately higher rate than the associated growth in operating expenses.

#### Specialized Care Services

Specialized Care Services is a portfolio of health and well-being companies, each serving a specialized market need with a unique offering of benefits, networks, services and resources. Specialized Care Services revenues during 2003 of \$1.9 billion increased by \$369 million, or 24%, over 2002. This increase was principally driven by an increase in the number of individuals served by United Behavioral Health, its mental health benefits business; Dental Benefit Providers, its dental services business; and Spectera, its vision care benefits business; as well as rate increases related to these businesses.

Earnings from operations in 2003 of \$585 million increased \$99 million, or 55%, over 2002. Specialized Care Services' operating margin increased to 20.5% in 2003, up from 19.0% in 2002. This increase was driven primarily by operational and productivity improvements at United Behavioral Health. With the continuing growth of the Specialized Care Services segment, we are consolidating production and service operations to a segmentwide service and production infrastructure to improve service, quality and consistency, and to enhance productivity and efficiency.

#### Ingenix

Ingentix is an international leader in the field of health care data analysis and application, serving pharmaceutical companies, health insurers and other payers, physicians and other health care providers, large employers and governments. Ingenix revenues in 2005 of \$574 million increased by \$83 million or 17%, over 2002. This was driven primarily by new business growth in the health information business.

Earnings from operations in 2003 were \$75 million, up \$20 million, or 86%, from 2002. Operating margin was 18.1% in 2008, up from 11.2% in 2002. The increase in the operating margin was primarily due to growth in the health information business.

#### 2002 RESULTS COMPARED TO 2001 RESULTS

#### Consolidated Financial Results

#### Revenues

Consolidated revenues increased by approximately \$1.6 billion, or 7%, in 2002 to \$25.0 billion. Strong growth across our business segments was partially offset by the impact of targeted withdrawals from unprofitable risk-based arrangements with customers using multiple health benefit carriers, and withdrawals and benefit design changes in our Medicare+Choice product offering in certain markets. Following is a discussion of 2002 consolidated revenue trends for each revenue component.

Premium Revenues Consolidated premium revenues in 2002 totaled \$21.9 billion, an increase of \$1.2 billion, or 6%, compared with 2001. Premium revenues from UnitedHealthcare's commercial risk-based products increased by approximately \$1.2 billion, or 10%, to \$12.9 billion in 2002. Average net premium rate increases exceeded 13% on UnitedHealthcare's renewing commercial risk-based business. This increase was partially offset by the effects of targeted withdrawals from unprofitable risk-based arrangements with customers using multiple health benefit carriers and a shift in product mix from risk-based to fee-based products. During 2002, the number of individuals served by UnitedHealthcare commercial risk-based products decreased by 180,000, or 3%.

Premium revenues from Medicaid and Medicare+Choice programs decreased by \$400 million, or 11%, to \$3.2 billion in 2002. Premium revenues from Medicare+Choice programs decreased by \$850 million to \$1.6 billion because of planned withdrawals and benefit design changes in certain markets undertaken in response to insufficient Medicare program reimbursement rates. Premium revenues from Medicaid programs increased by \$450 million to \$1.6 billion in 2002. More than half of this increase, \$240 million, related to the acquisition of AmeriChoice on September 30, 2002.

The balance of premium revenue growth in 2002 included a \$240 million increase in Health Care Services' premium revenues driven by an increase in the number of individuals served by both Ovations' Medicare supplement products provided to AARP members and by its Evercare husiness. In addition, Specialized Care Services realized a \$140 million increase in premium revenues in 2002.

Service Revenues Service revenues in 2002 totaled \$2.9 billion, an increase of \$404 million, or 16%, over 2001. The increase in service revenues was driven primarily by aggregate growth of 11% in the number of individuals served by Uniprise and UnitedHealthcare under fee-based arrangements. Uniprise and UnitedHealthcare service revenues grew by an aggregate of \$250 million during 2002. Additionally, revenues from Ovations' Pharmacy Services business, established in June 2001, increased by approximately \$110 million, as it was in operation for the full year in 2002.

Investment and Other Income Investment and other income in 2002 totaled \$220 million, a decrease of \$61 million, or 22%, from 2001. Interest income decreased by \$92 million due to lower interest yields on investments in 2002 compared with 2001, partially offset by the impact of increased levels of cash and fixed-income investments. Net realized capital losses in 2002 were \$18 million, compared to net realized capital gains of \$11 million in 2001. The 2002 net realized capital losses were mainly due to sales of investments in debt securities of certain companies in the telecommunications industry and impairments recorded on certain UnitedHealth Capital equity investments. The losses were partially offset by capital gains on sales of investments in other debt securities.

#### Medical Costs

The consolidated medical care ratio decreased from 85.3% in 2001 to 83.0% in 2002. Excluding the AARP business, the medical care ratio decreased by 250 basis points from 83.9% in 2001 to 81.4% in 2002. Approximately 90 basis points of the medical care ratio decrease resulted from targeted withdrawals from unprofitable risk-based arrangements with commercial customers using multiple health benefit carriers and a shift in commercial customer mix, with a larger percentage of premium revenues derived from small business customers. These employer groups typically have a lower medical care ratio, but carry higher operating costs than larger customers. Additionally, the medical care ratio decreased approximately 90 basis points because of withdrawals and benefit design changes in certain Medicare markets pertaining to our Medicare+Choice offering. The balance of the decrease in the medical care ratio was primarily driven by changes in product and business mix, care management activities and net premium rate increases that exceeded overall medical benefit eost increases:

On an absolute dollar basis, consolidated medical costs increased by \$548 million, or 3%, over 2001. This increase principally resulted from a rise in medical costs of approximately 12%, or \$2.1 billion. driven by the combination of medical cost inflation and increased health care consumption. Partiallyoffsetting this increase, medical costs decreased by approximately \$1.4 billion due to net reductions in the number of people receiving benefits under our Medicare and commercial risk-based products. The balance of the decrease in medical costs was driven primarily by changes in benefit designs in certain Medicare markets.

### Operating Costs

The operating cust ratio was 17.5% in 2002, compared with 17.0% in 2001, During 2002, our fee based products and services grew at a faster rate than our premium-based products, and fee-based products have much higher operating cost ratios than premium-based products. In addition, our Medicare business, which has relatively low operating costs as a percentage of revenues, decreased in size relative to our overall operations. Using a revenue mix comparable to 2001, the 2002 operating cost ratio would have decreased slightly in 2002. This decrease was principally driven by operating cost efficiencies derived from process improvements, technology deployment and cost management initiatives that reduced labor and occupancy costs in our transaction processing and customer service, billing and enrollment functions. The impact of these efficiencies was partially offset by the incremental costs associated with the development, deployment, adopition and maintenance of new technology releases, as well as increased business self-insurance costs during 2002.

On an absolute dollar basis, operating costs increased by \$408 million, or 10%, over 2001. This increase was driven by a 7% increase in the foral number of individuals served by Health Care Services and Uniprise during 2002, general operating cost inflation and the additional costs associated with acquired businesses.

#### Depreciation and Amortization

Depreciation and amortization was \$255 million in 2002 and \$265 million in 2001. This decrease was due to \$95 million of amortization expense in 2001 recorded for goodwill, which was no longer amortized in 2002 pursuant to the adoption of finantial Accounting Standards (FAS) No. 142, Goodwill and Other Intangible Assets. This deciremental largely officer by \$85 million of additional depreciation and amortization resulting from higher levels of equipment and capitalized software as a result of technology enhancements and business growth.

### Income Taxes

Our effective income tax rate was 35.5% in 2002 and \$8.0% in 2001. The degrease was primarily due to the impact of non-tax-deductible goodwill amortization that is no longer amortized for funmicial reporting purposes; as required by FAS No. 142 Assuming FAS No. 142 was effective during 2001. the effective tax rate would have been approximately \$6.0% during 2001.

### **Business Segments**

The following summarizes the operating results of our business segments for the years ended December 31 (in millions):

REVENUES			Percent
7.00	2002	2001	Change
Health Care Services	\$ 21,552	\$ 20,403	6%
Uniprise	2,725	2,474	10%
Specialized Care Services	1,509	1,254	20%
Ingenix	491	447	10%
Corporate and Eliminations	(1,257)	(1,124)	ווות
Consolidated Revenues	\$ 25,020	\$ 29,454	7%
EARNINGS FROM OPERATIONS		2001	Percent
	2002	Reported A	Adjusted Change
Health Care Services	\$ 1,328	\$ 936 \$	974 36%
Uniprisè	517	382	410 25%
Specialized Care Services	286	214	220 30%
Ingenix	55	48	69 (20%)
Corporate	-	(14)	(14) nm
Consolidated Earnings From Operations	\$ 2,186		,659 32%

<sup>1</sup> Adjusted to exclude \$95 million of amortization expense associated with goodwill for comparability purposes. Burstant to PAS No. 142, which we adapted effective January 1, 2002, goodwill is no longer amortized. Where applicable, the percent change is calculated comparing the 2002 results to the 2001 "Adjusted" results.

#### Health Care Services

Health Care Services posted record revenues of \$21.6 billion in 2002, an increase of nearly \$1.2 billion. or 6%, over 2001. The increase in revenues primarily resulted from an increase of approximately \$1.2 billion in UnitedHealthcare's commercial premium revenues. This was driven by average net premium rate increases in excess of 13% on renewing commercial risk-based business, partially offset by the effects of targeted withdrawals from unprofitable risk-based arrangements with commercial customers using multiple health benefit carriers. Premium revenues from Medicaid programs increased by \$450 million in 2002, of which \$240 million related to the acquisition of AmeriChoice on September 30, 2002. Offsetting these increases, Medicare+Choice premium revenues decreased by \$850 million as a result of planned withdrawals and benefit design changes in certain markets in response to insufficient Medicare program reimbursement rates. The balance of Health Care Services' revenue growth in 2002 includes a \$240 million increase in Ovations revenues driven by an increase. in the number of individuals served by both its Medicare supplement products provided to AARP members and its Evercare business, and a \$140 million increase in revenues from its Pharmacy Services business, established in June 2001.

Health Care Services realized earnings from operations of \$1.3 billion in 2002, an increase of \$392 million; or 42%, over 2001 on a reported basis, and an increase of \$354 million, or 35%, over 2001 on a FAS No. 142 comparable reporting basis. This increase primarily resulted from improved gross margins on UnitedHealthcare's commercial risk-based products, revenue growth and operating cost efficiencies derived from process improvements, technology deployment and cost management initiatives that reduced labor and occupancy costs in the transaction processing and customer service, billing and enrollment functions. Health Care Services' operating margin increased to 6.2% in 2002 from 4.6% on a reported basis and from 4.8% on a FAS No. 142 comparable reporting basis in 2001. This increase was driven by a combination of an improved medical care ratio, productivity improvements and a shift in product mix from risk-based products to higher-margin, fee-based products.

UnitedHealthcare's commercial medical care ratio decreased by 230 basis points from 84.1% in 2001 to 81.8% in 2002. Approximately 130 basis points of the commercial medical care ratio decrease resulted from targeted withdrawais from unprofitable risk-based arrangements with commercial customers using multiple carriers and a shift in commercial customer mix, with a larger percentage of premium revenues derived from small business customers. These employer groups typically have a lower medical care ratio, but carry higher operating costs than larger customers. The balance of the decrease in the commercial medical care ratio was primarily driven by changes in product mix, care management activities and net premium rate increases that exceeded overall medical benefit cost increases.

The following table summarizes the number of individuals served, by major market segment and funding arrangement, as of December 31:

(in thousands)	2002	
Commercial	2002	2001
Risk-Based Fee-Based	5,070	5,250
	2.715	2,505
Total Commercial	7,785	7.555
Medicare	225	345
Médicaid	1,030	640
Total Health Care Services	9,040	8.540
A second and a second and a second as a		

<sup>1</sup> Excludes indistiduals served by Orations' Medicare supplement products provided to AARP members.

The number of individuals served by UnitedHealthcare's commercial products increased by 230,000, or 3%, during 2002. This included an increase of 410,000, or 18%, in the number of individuals served with fee-based products, driven by new customer relationships and customers converting from risk-based products during 2002. This increase was partially offset by a decrease of 180,000, or 3%, in the number of individuals served by risk-based products, driven by customers converting to self-funded, fee-based arrangements and UnitedHealthcare's targeted withdrawal of risk-based product offerings from unprofitable arrangements with customers using multiple health benefit carriers.

Ovations' year-over-year Medicare enrollment decreased 35% because of market withdrawals and benefit design changes. These actions were taken in response to insufficient Medicare program reimbursement rates in specific counties and were intended to preserve profit margins and better position the Medicare program for long-term success. Year-over-year Medicaid enrollment increased by 390,000, largely due to the acquisition of AmeriChoice on September 30, 2002, which served approximately 360,000 individuals as of the acquisition date:

### Uniprise

Uniprise revenues were \$2.7 billion in 2002, up \$251 million, or 10%, over 2001. This increase was driven primarily by an 8% increase in Uniprise's customer base. Uniprise served 8.5 million individuals as of December \$1, 2002, and 8.0 million individuals as of December \$1, 2001.

Uniprise earnings from operations grew by \$135 million, or \$5%, over 2001 on a reported basis, and by \$107 million, or 26%, over 2001 on a FAS No. 142 comparable reporting basis. Operating margin improved to 19.0% in 2002 from 15.4% on a reported basis and from 16.6% on a FAS No. 142 comparable reporting basis in 2001. Uniprise expanded its operating margin through operating cost efficiencies derived from process improvements, technology deployment and cost management initiatives that reduced labor and occupancy costs supporting its transaction processing and customer service, billing and enrollment functions. Additionally, Uniprise's infrastructure can be scaled efficiently, allowing its business to grow revenues at a proportionately higher rate than the associated growth in operating expenses.

#### Specialized Care Services

Specialized Care Services had revenues of \$1.5 billion in 2002, an increase of \$255 million, or 20%, over 2001. This increase was principally driven by \$140 million of revenue growth from Spectera, its vision care benefits business acquired in October 2001, and an increase in the number of individuals served by United Behavioral Health, its mental health benefits business, and Dental Benefit Providers, its dental services business.

Earnings from operations reached \$286 million in 2002, an increase over 2001 of \$72 million, or 34%, on a reported basis and \$66 million, or 30%, on a FAS No. 142 comparable reporting basis. Specialized Care Services' operating margin increased to 19.0% in 2002, up from 17.1% on a reported basis and from 17.5% on a FAS No. 142 comparable reporting basis in 2001. This increase was driven by operational and productivity improvements, partially offset by a shifting business mix toward higher revenue, lower margin products. With the growth of this segment, we began consolidating production and service operations to a segmentwide service and production infrastructure to improve service quality and consistency and enhance productivity and efficiency.

#### Ingenix

Revenues were \$491 million in 2002, an increase of \$44 million, or 10%, over 2001. This was the result of strong new business growth in the health information business and revenues from acquired businesses; partially offset by reduced revenues in the pharmaceutical services business.

Earnings from operations were \$55 million, up \$7 million, or 15%, over 2001 on a reported basis, and down \$14 million, or 20%, from 2001 on a FAS No. 142 comparable reporting basis. Operating margin was 11.2% in 2002, up from 10.7% in 2001 on a reported basis, and down from 15.4% on a FAS No. 142 comparable reporting basis. The reduction in earnings from operations and operating margin on a FAS No. 142 comparable reporting basis was due to cancellations and delays of certain clinical research trials by pharmaceutical clients, which were affected by weak industry-specific conditions. This reduction was partially offset by strong business growth and slightly expanding margins in the health information business.

#### Carporate

Corporate includes costs for certain companywide process improvement initiatives, net expenses from charitable contributions to the United Health Foundation and eliminations of intersegment transactions. The decrease in corporate expenses of \$14 million from 2001 to 2002 reflects the completion during 2001 of certain companywide process improvement initiatives.

# FINANCIAL CONDITION AND LIQUIDITY AT DECEMBER 31, 2003

#### Liquidity

We manage our cash, investments and capital structure so we are able to meet the short- and long-term obligations of our business while maintaining strong financial flexibility and liquidity. We forecast, analyze and monitor our cash flows to enable prudent investment and financing within the confines of our linuncial strategy.

Our regulated subsidiaries generate significant cash flows from operations. A majority of the assets held by our regulated subsidiaries are in the form of cash, cash equivalents and investments. After considering expected cash flows from operating activities, we generally invest monies of regulated subsidiaries that exceed our short-term obligations in longer term, investment-grade, marketable debt securities to improve our overall investment return. Factors we consider in making these investment decisions include our board of directors' approved investment policy, regulatory limitations, return objectives, tax implications, risk tolerance and maturity dates. Our long-term investments are also available for sale to meet short-term liquidity and other needs. Monies in excess of the capital needs of our regulated entities are paid to their non-regulated parent companies, typically in the form of dividends, for general corporate use, when and as permitted by applicable regulations.

Our non-regulated businesses also generate significant cash from operations for general corporate use. Cash flows generated by these entities, combined with the issuance of commercial paper, long-term debt and the availability of committed credit facilities, further strengthen our operating and financial flexibility. We generally use these cash flows to remvest in our businesses in the form of capital expenditures, to expand the depth and breadth of our services through business acquisitions, and to repurchase shares of our common stock; depending on market conditions.

Cash generated from operating activities, our primary source of liquidity, is principally from net earnings, excluding depreciation and amortization. As a result, any future decline in our profitability may have a negative impact on our liquidity. The level of profitability of our risk-based business depends in large part on our ability to accurately predict and price for health care cost increases. This risk is partially mitigated by the diversity of our other businesses, the geographic diversity of our risk-based business and our disciplined underwriting and pricing processes, which seek to match premium rate increases with future health care costs. In 2003, a hypothetical 1% increase in commercial insured medical costs would have reduced net earnings by approximately \$75 million.

The availability of financing in the form of debt on equity is influenced by many factors, including our profitability, operating each flows, debt levels, debt ratings, contractual restrictions, regulatory requirements and market conditions. We believe that our strategies and actions toward maintaining financial flexibility mitigate much of this risk.

#### Cash and Investments

Cash flows from operating activities was \$3.0 billion in 2003, representing an increase over 2002 of \$580 million, or 24%. This increase in operating cash flows resulted primarily from an increase of \$454 million in net income excluding depreciation, amortization and other noncash items. Additionally, operating cash flows increased by \$126 million due to eash generated by working capital changes, driven primarily by an increase in medical costs payable. As premium revenues and related medical costs increase, we generate incremental operating cash flows because we collect premium revenues in advance of the claim payments for related medical costs.

We maintained a strong financial condition and liquidity position, with eash and investments of \$9.5 billion at December 31, 2003. Total cash and investments increased by \$3.1 billion since December 31, 2002, primarily due to \$2.2 billion in cash and investments acquired in the Golden Rule acquisition in November 2003 and strong operating cash flows, partially offset by capital expenditures, businesses acquired for cash and common stock repurchases.

As further described under "Regulatory Capital and Dividend Restrictions," many of our subsidiaries are subject to various government regulations that restrict the timing and amount of dividends and other distributions that may be paid to their parent companies. At December 31, 2003, approximately \$385 million of our \$9.5 billion of cash and investments was held by non-regulated subsidiaries. Of this amount, approximately \$45 million was segregated for future regulatory capital needs and the remainder was available for general corporate use, including acquisitions and share repurchases.

#### Financing and Investing Activities

In addition to our strong cash flows generated by operating activities, we use commercial paper and debt to maintain adequate operating and financial flexibility. As of December 31, 2003 and 2002, we had commercial paper and debt outstanding of approximately \$2.0 hillion and \$1.8 billion, respectively. Our debi-to-total-capital ratio was 27.8% and 28.5% as of December 31, 2003 and December 31, 2002, respectively. We believe the prudent use of debt leverage optimizes our cost of capital and return on shareholders' equity, while maintaining appropriate liquidity.

In December and March 2003, we issued \$500 million of four-year, fixed-rate notes and \$450 million of 10-year, fixed-rate notes with interest rates of 3.3% and 4.9%, respectively. We entered into interest rate swap agreements to convert our interest exposure on \$725 million of the 2008 borrowings from a fixed to a variable rate. At December 81, 2003, the case used to accrue interest expense on these agreements ranged from 1.2% to 1.6%. The differential between the fixed and variable rates to be paid. or received is accrued and recognized over the life of the agreements as an adjustment to interest expense in the Consolidated Statements of Operations. We used the proceeds from these borrowings to repay commercial paper and term debt maturing in 2003, and for general corporate purposes, including working capital, capital expenditures, business acquisitions and share repurchases. Commercial paper and current maturities of long-term debt decreased from \$811 million as of December 31, 2002, to \$229 million as of December 31, 2003, as a result of these actions.

We have credit arrangements for \$900 million that support our commercial paper program. These credit arrangements include a \$450 million revolving facility that expires in July 2005, and a \$450 million; 364-day facility that expires in July 2004. As of December 31, 2008, we had no amounts outstanding under our credit facilities.

Our debt arrangements and credit facilities contain various covenants, the most restrictive of which require us to maintain a debt-to-total-capital ratio (calculated as the sum of commercial paper and debt divided by the sum of commercial paper, debt and shareholders, equity) below 45% and to exceed specified minimum interest coverage levels. We are in compliance with the requirements of all debt covenants.

Our senior debt is rated "A" by Standard & Poor's (S&P) and Fitch, and "A3" with a positive outlook by Moody's. Our commercial paper is rated "A-1" by S&P, "F-1" by Fitch, and "P-2" with a positive outlook by Moody's. Consistent with our intention of maintaining our senior debt ratings in the "A" range, we intend to maintain our debt-to-total-capital ratio at 30% or less. A significant downgrade in our debt or commercial paper ratings could adversely affect our borrowing capacity and costs.

Under our board of directors' authorization, we maintain a common stock repurchase program. Repurchases may be made from time to time at prevailing prices, subject to certain restrictions on volume, pricing and timing. During 2003, we repurchased 33 million shares at an average price of approximately \$4.7 per share and an aggregate cost of approximately \$1.6 billion. As of December 31, 2003, we had board of directors' authorization to purchase up to an additional 45 million shares of our common stock. Our common stock repurchase program is discretionary as we are under no obligation to repurchase shares. We repurchase shares because we believe it is a prudent use of capital. A decision by the company to discontinue share repurchases would significantly increase our liquidity and financial flexibility.

In May 2003, our board of directors declared a two-for-one split of the company's common stock in the form of a 100% common stock dividend. The stock dividend was issued on June 18, 2003, to shareholders of record as of June 2, 2003. All share and per share amounts have been restated to reflect the stock split.

On November 13, 2005, our Health Care Services business segment acquired Golden Rule Financial Corporation and subsidiaries. We paid \$495 million in each in exchange for all of the outstanding stock of Golden Rule.

On February 10, 2004, our Health Care Services business segment acquired Mid Atlantic Medical Services. Inc. (MAMSI). Under the terms of the purchase agreement, MAMSI shareholders received 0.82 shares of UnitedHealth Group common stock and \$18 in cash for each share of MAMSI common stock they owned. Total consideration issued was approximately \$2.7 billion, comprised of 36.4 million shares of UnitedHealth Group common stock (valued at \$1.9 billion based upon the average of UnitedHealth Group's share closing price for two days before, the day of and two days after the acquisition announcement date of October 27, 2003) and approximately \$800 million in cash.

We financed the cash portion of the MAMSI purchase price primarily through commercial paper issuances and a total of \$500 million of five- and 10-year fixed-rate notes issued on February 10, 2004. We have entered into interest rate swap agreements to convert our interest exposure on these notes from a fixed to a variable rate. Following the closing of this acquisition and the debt-issuances, our debt-to-total capital ratio remained below 30%.

Under our \$8 shelf registration statement (for common stock, preferred stock, debt securities and other securities), the remaining issuing capacity of all covered securities, after consideration of the notes issued in connection with the MAMSI acquisition described above, is \$250 million. We may publicly offer securities from time to time at prices and terms to be determined at the time of offering. We plan to file an amendment to increase the issuing capacity under our \$3 shelf registration statement to \$2.0 billion during the first half of 2004. Under our \$4 acquisition shelf registration statement, we have remaining issuing capacity of approximately 24.3 million shares of our common stock in connection with acquisition activities. We filed a separate \$4 registration statement for the \$6.4 million shares issued in connection with the acquisition of MAMSI described above.

#### Contractual Obligations, Off-Balance Sheet Arrangements And Commitments

The following table summarizes future obligations due by period as of December 31, 2003, under our various contractual obligations, off-balance sheet arrangements and commitments (in millions):

	2004	2005 to 2006	2007 to 2008	Theresites	Total
Debt and Commercial Paper <sup>1</sup>	\$ 229	\$ 400	\$ 900	\$ 450	\$ 1,979
Operating Leases	103	185	144	191	623
Purchase Obligations*	83	99	14	-	196
Future Policy Benefits'	160	290	265	962	1,677
Other Long-Term Obligations'		<b></b>	65	173	238
Total Contractual Obligations	\$ 575	\$ 974	\$1,588	\$1,776	\$4,713

Debt payments could be accelerated upon violation of debt covenants. We believe the likelihood of a debt covenant violation is remote.

Currently, we do not have any other material contractual obligations, off-balance sheet arrangements or commitments that require cash resources; however, we continually evaluate opportunities to expand our operations. This includes internal development of new products, programs and technology applications, and may include acquisitions.

#### REGULATORY CAPITAL AND DIVIDEND RESTRICTIONS

We conduct a significant portion of our operations through companies that are subject to standards established by the National Association of Insurance Commissioners (NAIC). These standards, among other things, require these subsidiaries to maintain specified levels of statutory capital, as defined by each state, and restrict the timing and amount of dividends and other distributions that may be paid to their parent companies. Generally, the amount of dividend distributions that may be paid by a regulated subsidiary, without prior approval by state regulatory authorities, is limited based on the entity's level of statutory net income and statutory capital and surplus. The agencies that assess our creditworthiness also consider capital adequacy levels when establishing our debt ratings. Consistent with our intent to maintain our senior debt ratings in the "A" range, we maintain an aggregate statutory capital level for our regulated subsidiaries that is significantly higher than the minimum level regulators require. As of December 51, 2003, our regulated subsidiaries had aggregate statutory capital of approximately \$3.1 billion, which is significantly more than the aggregate minimum regulatory requirements.

Minimum commitments under existing purchase obligations for goods and services

<sup>3</sup> Eathmated payments required under life insurance and annusty contracts.

Includes obligations associated with certain employee benefit programs and minority interest purchase commitments

# CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting policies are those policies that require management to make the most challenging, subjective or complex judgments, often because they must estimate the effects of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgments and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions. We believe our most critical accounting policies are those described below. For a detailed discussion of these and other accounting policies, see Note 2 to the Consolidated Financial Statements.

#### Revenues

Revenues are principally derived from health care insurance premiums. We recognize premium revenues in the period eligible individuals are entitled to receive health care services. Customers are typically billed monthly sea contracted rate per eligible person multiplied by the total number of people eligible to receive services, as recorded in our records. Employer groups generally provide us with changes to their eligible population one month in arrears. Each billing includes an adjustment for prior month changes in eligibility status that were not reflected in our previous billing. We estimate and adjust the current period's revenues and accounts receivable accordingly. Our estimates are based on historical trends, premiums billed, the level of contract renewal activity and other relevant information. We revise estimates of revenue adjustments each period, and record changes in the period they become known.

#### **Medical Costs**

Each reporting period, we estimate our obligations for medical care services that have been rendered on behalf of insured consumers but for which claims have either not yet been received or processed, and for liabilities for physician, hospital and other medical cost disputes. We develop estimates for medical care services incurred but not reported using an actuarial process that is consistently applied, centrally controlled and automated. The actuarial models consider factors such as time from date of service to claim receipt, claim backlogs, seasonal variances in medical care consumption, provider contract rate changes, medical care utilization and other medical cost trends, membership volume and demographies, benefit plan changes, and business mix changes related to products, customers and geography. Depending on the health care provider and type of service, the typical billing lag for services can range from two to 90 days from the date of service. Substantially all claims related to medical care services are known and settled within nine to 12 months from the date of service. We estimate liabilities for physician, hospital and other medical cost disputes based upon an analysis of potential outcomes, assuming a combination of litigation and settlement strategies.

Each period, we re-examine previously established medical costs payable estimates based on actual claim submissions and other changes in facts and circumstances. As the liability estimates recorded in prior periods become more exact, we increase or decrease the amount of the estimates, with the changes in estimates included in medical costs in the period in which the change is identified. In every reporting period, our operating results include the effects of more completely developed medical costs payable estimates associated with previously reported periods. If the revised estimate of prior period medical costs in the current period (favorable development). If the revised estimate of prior period medical costs in the current period (favorable development). If the revised estimate of prior period medical costs is more than the previous estimate, we will increase reported medical costs in the current period (unfavorable development). Historically, the net impact of estimate developments has represented less than one-half of 1% of annual medical costs, less than 4% of annual earnings from operations and less than 3% of medical costs payable.

In order to evaluate the impact of changes in medical cost estimates for any particular discrete period, one should consider both the amount of development recorded in the current period pertaining to prior periods and the amount of development recorded in subsequent periods pertaining to the current period. The accompanying table provides a summary of the net impact of favorable development on medical costs and earnings from operations (in millions).

		rable		et Impact on Medical Costs Earnin			Earnings fro	m Operations
	Devek	proent	Medic	al Còsts (a)	As Reported	As Adjusted (b)	As Reported	As Adjusted (b)
2000	\$	15	\$	(45)	\$ 16,155	\$ 16,140	\$ 1.200	\$ 1.215
2001	\$	30	\$	(40)	\$ 17,644	\$ 17,604	\$ 1.566	\$ 1.606
2002	\$	70	\$	(80)	\$ 18,192	\$ 18,112	\$ 2,186	\$ 2,266
2003	\$	150		`(c)	\$.20,714	(c)	\$ 2,935	(c)

- a) The amount of favorable development recorded in the current year pertaining to the prior year less the amount of favorable development recorded in the subsequent year pertaining to the current year.
- b) Represents reported amounts adjusted to reflect the net impact of medical cost development.
- c) Not yet determinable as the amount of prior period development recorded in 2004 will change as our December 31, 2003 medical rusts payable estimate develops throughout 2004.

Our estimate of medical costs payable represents management's best estimate of the company's liability for unpaid medical costs as of December 31, 2003, developed using consistently applied actuarial methods. Management believes the amount of medical costs payable is reasonable and adequate to cover the company's liability for unpaid claims as of December 31, 2003; however, actual claim payments may differ from established estimates. Assuming a hypothetical 1% difference between our December 31, 2003 estimates of medical costs payable and actual costs payable, excluding the AARP business, 2003 earnings from operations would increase or decrease by approximately \$35 million and diluted net earnings per common share would increase or decrease by approximately \$0.03 per share.

#### Investments

As of December \$1, 2003, we had approximately \$7.2 billion of investments, primarily held in marketable debt securities. Our investments are principally classified as available for sale and are recorded at fair value. We exclude unrealized gains and losses on investments available for sale from earnings and report them together, not of income tax effects, as a separate component in shareholders' equity. We continually monitor the difference between the cost and fair value of our investments. As of December \$1, 2003, our investments had gross unrealized gains of \$238 million and gross unrealized losses of \$7 million. If any of our investments experience a decline in fair value that is determined to be other than temporary, based on analysis of relevant factors, we record a realized loss in our Consolidated Statement of Operations. Management judgment is involved in evaluating whether a decline in an investment's fair value is other than temporary. New information and the passage of time can change these judgments. We revise impairment judgments when new information becomes known and record any resulting impairment charges at that time. We manage our investment portfolio to limit our exposure to any one issuer or industry and largely limit our investments to U.S. Government and Agency securities, state and municipal securities, and corporate debt obligations that are investment grade.

#### Long-Lived Assets

As of December 31, 2003 and 2002, we had long-lived assets, including goodwill, other intangible assets, and property, equipment and capitalized software, of \$4.7 billion and \$4.4 billion, respectively. We review these assets for events and changes in circumstances that would indicate we might not recover their carrying value. In assessing the recoverability of our long-lived assets, we must make assumptions regarding estimated future utility, tash flows and other internal and external factors to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for these assets.

#### Contingent Liabilities

Because of the nature of our businesses, we are routinely involved in various disputes, legal proceedings and governmental audits and investigations. We record liabilities for our estimates of the probable costs resulting from these matters. Our estimates are developed in consultation with outside legal counsel and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies and considering our insurance coverages, if any, for such matters. We do not believe any matters currently threatened or pending will have a material adverse effect on our consolidated financial position or results of operations. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in our estimates or assumptions.

#### INFLATION

The current national health care cost inflation rate significantly exceeds the general inflation rate. We use various strategies to lessen the effects of health care cost inflation. These include setting commercial premiums based on anticipated health care costs and coordinating care with physicians and other health care providers. Through contracts with physicians and other health care providers, we emphasize preventive health care, appropriate use of health care services consistent with clinical performance standards, education and closing gaps in care.

We believe our strategies to mitigate the impact of health care cost inflation on our operating results have been and will continue to be successful. However, other factors including competitive pressures, new health care and pharmaceutical product introductions, demands from physicians and other health care providers and consumers, major epidemics, and applicable regulations may affect our ability to control the impact of health care cost inflation. Because of the narrow operating margins of our risk-based products, changes in medical cost trends that were not anticipated in establishing premium rates can create significant changes in our financial results.

#### LEGAL MATTERS

Because of the nature of our businesses, we are routinely party to a variety of legal actions related to the design, management and offerings of our services. We record liabilities for our estimates of probable costs resulting from these matters. These matters include, but are not limited to: claims relating to health care benefits coverage; medical malpractice actions; contract disputes; and claims related to disclosure of certain business practices. Following the events of September 11, 2001, the cost of business insurance coverage increased significantly. As a result, we have increased the amount of risk that we self-insure, particularly with respect to matters incidental to our business.

Beginning in 1999, a series of class action lawsuits were filed against us and virtually all major entities in the health benefits business. Generally, the health care provider plaintiffs allege violations of the Employee Retirement Income Security Act of 1974, as amended (ERISA), and the Racketter Influenced Corrupt Organization Act (RICO), as well as several state law claims. The suit seeks injunctive, compensatory and equitable relief as well as restitution, costs, fees and interest payments. We are engaged in discovery in this matter. A trial date has been set for September 13, 2004.

In March 2000, the American Medical Association filed a lawsuit against the company in connection with the calculation of reasonable and customary reimbursement rates for non-network providers. The spit seeks declaratory injunctive and compensatory relief as well as costs. Fire and interest payments. An amended complaint was filed on August 25, 2000, which alleged two classes of plaintiffs, an ERISA class and a non-ERISA class. After the court dismissed certain ERISA classis and the claims brought by the American Medical Association, a third amended complaint was filed. On October 25, 2002, the court granted in part and denied in part our motion to dismiss the third amended complaint. We are engaged in discovery in this matter.

Although the results of pending litigation are always uncertain, we do not believe the results of any such actions currently threatened or pending, including those described above, will, individually or in aggregate, have a material adverse effect on our consolidated financial position or results of operations.

# QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of changes in the fair value of a financial instrument caused by changes in interest rates and equity prices. The company's primary market risk is exposure to changes in interest rates that could impact the fair value of our investments and long-term debt.

Approximately \$7,0 billion of our investments at December 31, 2003 were fixed income securities. Assuming a hypothetical and immediate 1% increase or decrease in interest rates applicable to our fixedincome investment portfolio at December 31, 2003, the fair value of our fixed-income investments would decrease or increase by approximately \$340 million. We manage our investment portfolio to limit our exposure to any one issuer or industry and largely limit our investments to U.S. Government and Agency securities, state and municipal securities, and corporate debt obligations that are investment grade.

To mitigate the financial impact of changes in interest rates, we have entered into interest rate swap agreements to more closely match the interest rates of our long-term debt with those of our cash equivalents and short-term investments. Including the impact of our interest rate swap agreements, approximately \$1.2 billion of our commercial paper and debt had variable rates of interest and \$825 million had fixed rates as of December 31, 2003. A hypothetical 1% increase or decrease in interest rates would not be material to the fair value of our commercial paper and debt.

At December \$1, 2003, we had \$181 million of equity investments, primarily field by our UnitedHealth Capital business in various public and non-public companies concentrated in the areas of health care delivery and related information technologies. Market conditions that affect the value of health care or technology stocks will likewise impact the value of our equity portfolio.

# CONCENTRATIONS OF CREDIT RISK

Investments in financial instruments such as marketable securities and accounts receivable may subject UnitedHealth Group to concentrations of credit risk. Our investments in marketable securities are managed under an investment policy authorized by our board of directors. This policy limits the amounts that may be invested in any one issuer and generally limits our investments to U.S. Government and Agency securities, state and municipal securities and corporate debt obligations that are investment grade. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of employer groups that constitute our customer base. As of December 31, 2003, there were no significant concentrations of credit risk.

# CAUTIONARY STATEMENT BEGARDING "FORWARD-LOOKING" STATEMENTS

The statements contained in Results of Operations and other sections of this annual report to shareholders include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (PSLRA). When used in this report, the words and phrases "believes," "anticipates," "intends," "will likely result," "estimates," "projects" and similar expressions are intended to identify such forward-looking statements. Any of these forward-looking statements involve risks and uncertainties that may cause the company's actual results to differ materially from the results discussed in the forward-looking statements. Statements that are not strictly historical are "forward-looking" and known and unknown risks may cause actual results and corporate developments to differ materially. from those expected. Except to the extent otherwise required by federal securities laws, we do not undertake to address or update each statement in future filings or communications regarding our business or results, and do not undertake to address how any of these factors may have caused results to differ from discussions or information contained in previous filings or communications. In addition, any of the matters discussed in this annual report may have affected our past as well as current forwardlooking statements about future results. Any or all forward-looking statements in this report and in any other public statements we make may turn out to be inaccurate. They can be affected by inaccurate assumptions we might make or by known or unknown tisks and uncertainties.

Many factors will be important in determining future results. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially from those expressed in our prior communications. Factors that could cause results and developments to differ materially from expectations include; without limitation, (a) increases in medical costs that are higher than we anticipated in establishing our premium rates, including increased consumption of or costs of medical services; (b) increases in costs associated with increased litigation, legislative activity and government regulation and review of our industry; (c) heightened competition as a result of new entrants into our market, mergers and acquisitions of licalth care companies and suppliers, and expansion of physician or practice management companies; (d) failure to maintain effective and efficient information systems, which could result in the loss of existing customers, difficulties in attracting new customers, difficulties in determining medical costs estimates and establishing appropriate pricing, customer and physicianand health care provider disputes, regulatory violations, increases in operating costs or other adverse consequences; (e) events that may negatively affect our contract with AARP, including any failure on our part to service AARP customers in an effective manner and any adverse events that directly affect AARP or its business partners; (f) significant deterioration in customer retention; (g) our ability to execute convacts on favorable terms with physicians, hospitals and other service providers, and (h). significant descriptation in economic conditions, including the effects of acts of terrorism, particularly bioterrorism, or major epidemics. A further list and description of these risks, uncertainties and other matters can be found in our annual report on Form 10. K for the year ended December 91, 2003, and in our reports on Forms 10-Q and 8-K.

# **Consolidated Statements of Operations**

(in millious, except per share data)	For the Year Ended December 31,				
An Assertant Creeks has saint trams	2003	2002	2001		
REVENUES					
Premiums	\$ 25,448	\$ 21,906	A DO COS		
Services	3.118	\$ 21,900 2,894	\$ 20,683		
Investment and Other Income	257	-2.034 -220	2,490 281		
Total Revenues	28,823	25,020	281 29,454		
MEDICAL AND OPERATING COSTS					
Medical Costs	20,714	10 100	1777		
Operating Costs	4,875	18,192 4,387	17,644		
Depreciation and Amortization	299	7,507 255	3,979		
Total Medical and Operating Costs	25,888	22;8 <b>34</b>	265 21,888		
EARNINGS FROM OPERATIONS	2,935	.2,186	L566		
Interest Expense	(95)	(90)	(94'_		
EARNINGS BEFORE INCOME TAXES	2,840	2.096	1.472		
Provision for Income Taxes	(1,015)	(744)	(559)		
NET EARNINGS	\$ 1,825	\$ 1,352	\$ 913		
BASIC NET EARNINGS PER COMMON SHARE	\$ 3.10	\$ 2.23	\$ 1.46		
DILUTED NET EARNINGS PER COMMON SHARE	\$ 2.96.	\$: 2.13	\$ 1.40		
BASIC WEIGHTED-AVERAGE NUMBER OF COMMON					
SHARES OUTSTANDING	589	607	625		
DILUTIVE EFFECT OF OUTSTANDING STOCK OPTIONS	28	29	29		
DILUTED WEIGHTED AVERAGE NUMBER OF COMMON			•		
SHARES OUTSTANDING	617 -	636	654		

See Notes to Consolidated Financial Statements

# Consolidated Balance Sheets

the millions, except per share data)		2003	As of Decembe	r 31. 2002
ASSETS				
Current Assets				
Cash and Cash Equivalents	- 14			
Short-Term Investments	\$	2,262	\$	1.130
Accounts Receivable, net of allowances of \$88 and \$86		486		701
Assets Under Management		745		664
Deferred Income Taxes		2,019		2,069
Other Current Assets		269		389
Total Current Assets		339		221
Long-Term Investments		6,120		5,174
Property Positions and Carlindian 2 C D		6,729		4,498
Property, Equipment and Capitalized Software, net of accumulated depreciation and amortization of \$538 and \$456				
Goodwill		1,032		955
		3,509		3,363
Other Intangible Assets, net of accumulated amortization of \$45 and \$51.  Other Assets		180		122
TOTAL ASSETS		64		52
in the wanting	\$	17,634	\$	14,164
"LIABILITIES AND SHAREHOLDERS" EQUITY				
Current Lighilities				
Merfical Costs Payable	\$	4 150		
Accounts Payable and Accrued Liabilities	*	4,152	\$	3,741
Other Policy Liabilities		1,575		1,459
Commercial Paper and Current Maturities of Long-Term Debt		2,117		1,781
Uncarned Premiums		229 695		811
Total Current Liabilities				587
Long-Term Debt, less current maturities		8,768		8,379
Future Policy Benefits for Life and Annuity Contracts		1.750		950
Deferred Income Taxes and Other Liabilities		1,517		-
Commitments and Contingencies (Note 12)		471	•	407
Shareholders' Equity				
Common Stock, \$0.01 per value - 1,500 shares authorized;				
589 and 599 shares outstanding				
Additional Paid-In Capital		6		6
Retained Earnings		-58		170
Accumulated Other Comprehensive Income:		4,915		4,104
Net Unrealized Gains on Investments, net of sax effects		2.32		
TOTAL SHAREHOLDERS' EQUITY		149_		148
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY		5,128		4,428
・ ・ ・ ・ ・ ・ ・ ・ ・ ・ ・ ・ ・ ・ ・ ・ ・ ・ ・		17,634	. \$	14:164

See Notes to Consolidated Financial Statements.

# Consolidated Statements of Changes in Shareholders' Equity

(epsellim tu)	Corr Shares	ernon Sta	ck lount	P	ditional laid-in laidei	Retained Earnings.	Gai	nvoalizēd irs on izvents	Total Shareholders' Equity	Comprehensive Income
BALANCE AT DECEMBER 31, 2000	634	\$	6	\$	_	\$ 3,592	\$	90	\$ 3,688	
Issuances of Common Stock,		•	Ü	•		عور بأن م	φ	÷Ω	4 2,000	
and related tax benefits	- 22		_		474				474	
Common Stock Repurchases	(39)		_		(438)	(691)		_	(1,129)	
Comprehensive Income	()				(mu)	(031)		_	(1,129)	
Net Earnings	_		_		_	913		_	913	\$ 913
Other Comprehensive Income Adjustments						51.5		_	317	Ф 313
Change in Net Unrealized Cains										
on Investments, net of tax effects	_		_			_		(46)	(46)	(46)
Comprehensive Income						_		101	(10)	\$ 867
Common Stock Dividend			_		_	(9)		_	(9)	Ø D() /
						(3)		_	(3)	
BALANCE AT DECEMBER 31, 2001	617		6		36	3:805		44	3.891	
Issuances of Common Stock,			-			21000		77	2,031	
and related tax benefits.	26.		_		905	_		_	905	
Common Stock Repurchases	(44)		_		(771)	(1,044)		_	(1.815)	
Comprehensive Income					, ,	(-,,			(1.01.0)	
Net Earnings	_		_		_	1,352		_	1,352	\$ 1,352
Other Comprehensive Income Adjustments					-	-12-2-			* 17.00	Ψ 1,4-1,2-1
Change in Net Unrealized Gains										
on Investments, net of tax effects	**		_		-	_		104	104	104
Comprehensive Income									.,,,	\$1,456
Common Stock Dividend	_		_		_	(9)		_	(9)	4 41 400
						• ,		,	(4,	
BALANCE AT DECEMBER 31, 2002	599		6		170	4,104		148	4,428	
Issuances of Common Stock,						•			0,220	
and related tax benefits	17		_		490	ت			490	
Common Stock Repurchases	(33)		_		(602)	(1,005)		_	(1,607)	
Comprehensive Income	·					1,			1-1	
Net Earnings	_		_		_	1,825		٠	1,825	\$ 1,825
Other Comprehensive Income Adjustments						4			-,	¥ 1,020
Change in Net Unrealized Gains										
on Investments, net of tax effects	_		÷		_	<u></u>		1	í	1
Comprehensive Income										\$ 1.826
Common Stock Dividend			<del></del>		_	(9)		:	(9)	
									¹¥	
BALANCE AT DECEMBER 31, 2003	583	\$	6	\$	58	\$ 4,915	_\$ }	ľ49	\$5,128	

See Notes to Consulidated Financial Statements.

# Consolidated Statements of Cash Flows

(in andkons)	2003	the Year Ended Dece 2002	mher 31, 200
OPEDATING ACTIVITIES			200
OPERATING ACTIVITIES			
Net Earnings Noncash Items	\$ 1,825	\$ 1,352	\$ 91:
Depreciation and Americation	299	<b>25</b> 5	263
Deferred Income Taxes and Other	91	154	40
Net Change in Other Operating Items, net of effects			
from acquisitions, sales of subsidiaries and changes			
in AARP balances			
Accounts Receivable and Other Current Assets	(46)	83	;
Medical Costs Payable	276	74	156
Accounts Payable and Accrued Liabilities	460	423	280
Other Policy Liabilities	87	70	131
Unearned Premiums	Ìl	Ĩ2	52
CASH FLOWS FROM OPERATING ACTIVITIES	3,003	2,423	1,844
NYESTING ACTIVITIES			
Cash Paid for Acquisitions, net of cash assumed and other effects	(590)	(B)(B)	Supple
Purchases of Property, Equipment and Capitalized Software	(352)	(302)	(9)
Purchases of Investments	(2,583)	(419)	(42)
Maturities and Sales of Investments	2.780	(3,246) 2,576	(2,088
CASH FLOWS USED FOR INVESTING ACTIVITIES	(745)	2,37 <del>0</del> (1,391)	1,467 (1,138
INANCING ACTIVITIES		•	W ****
Proceeds from (Payments of) Commercial Paper, net			
Proceeds from Issuance of Long-Term Debt	(382)	(223)	275
Payments for Retirement of Long-Term Debt	950	400	250
Common Stock Repurchases	(350)	-	(150
Proceeds from Common Stock Issuances	(1,607)	(1,815)	(1,129
Dividends Paid	268	205	178
Other	(9)	(9)	(9
CASH FLOWS USED FOR FINANCING ACTIVITIES	4_		
	(1,126)	(1,442)	(585
ncrease (decrease) in cash and eash equivalents	1,132	. (410)	121
ash and eash equivalents, beginning of period	1,130	1,540	1,419
ASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 2,262-	\$ 1,130	\$ 1.540
UPPLEMENTAL SCHEME OF HOUSE AND			4
UPPLEMENTAL SCHEDULE OF HONCASH INVESTING AND FINANCING COMMON Stock Issued for Acquisitions	ACTIVITIES		

# Notes to Consolidated Financial Statements

#### 1 DESCRIPTION OF BUSINESS

UnitedHealth Group Incorporated (also referred to as "UnitedHealth Group," "the company," "we," "us," and "our") is a national leader in forming and operating orderly, efficient markets for the exchange of high quality health and well-being services. Through strategically aligned, market-defined businesses, we offer health care access, benefits and related administrative, technology and information services designed to enable, facilitate and advance optimal health care.

# 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation

We have prepared the consolidated financial statements according to accounting principles generally accepted in the United States of America and have included the accounts of United Health Group and its subsidiaries. We have eliminated all significant intercompany balances and transactions.

#### **Use of Estimates**

These consolidated financial statements include certain amounts that are based on our best estimates and judgments. These estimates require us to apply complex assumptions and judgments, often because we must make estimates about the effects of matters that are inherently uncertain and will change in subsequent periods. The most significant estimates relate to medical costs, medical costs payable, revenues, contingent liabilities and asset valuations, allowances and impairments. We adjust these estimates each period, as more current information becomes available. The impact of any changes in estimates is included in the determination of earnings in the period in which the estimate is adjusted.

#### Revenues

Premium revenues are primarily derived from risk-based health insurance arrangements in which the premium is fixed, typically for a one-year period, and we assume the economic risk of funding our customers' health care services and related administrative costs. We recognize premium revenues in the period in which eligible individuals are entitled to receive health care services. We record health care premium payments we receive from our customers in advance of the service period as unearned premiums.

Service revenues consist primarily of fees derived from services performed for customers that selfinsure the medical costs of their employees and their dependents. Under service fee contracts, we recognize revenue in the period the related services are performed based upon the fee charged to the customer. The customers retain the risk of financing medical benefits for their employees and their employees' dependents, and we administer the payment of customer funds to physicians and other health care providers from customer-funded bank accounts. Because we do not have the obligation for funding the medical expenses, nor do we have responsibility for delivering the medical care, we do not recognize gross revenue and medical costs for these contracts in our consolidated financial statements.

For both premium risk-based and fee-based customer arrangements, we provide coordination and facilitation of medical services, transaction processing, customer, consumer and care provider services. and access to contracted networks of physicians, hospitals and other health care professionals.

# Medical Costs and Medical Costs Payable

Medical costs and medical costs payable include estimates of our obligations for medical care services. that have been rendered on behalf of insured consumers but for which elains have either not yet been received or processed, and for liabilities for physician, hospital and other medical cost disputes. We develop estimates for medical costs incurred but not reported using an actuarial process that is consistently applied, centrally controlled and automated. The actuarial models consider factors such as time from date of service to claim receipt, claim backlogs, provider contract rate changes, medical care

consumption and other medical cost trends. Each period, we re-examine previously established medical costs payable estimates based on actual claim submissions and other changes in facts and circumstances. As the liability estimates recorded in prior periods become more exact, we increase or decrease the amount of the estimates, with the changes in estimates included in medical costs in the period in which the change is identified. In every reporting period, our operating results include the effects of more completely developed medical costs payable estimates associated with previously reported periods.

# Cash, Cash Equivalents and Investments

Cash and cash equivalents are highly liquid investments with an original maturity of three months or less. The fair value of cash and cash equivalents approximates their carrying value because of the short maturity of the instruments. Investments with a maturity of less than one year are classified as short-term. We may self investments classified as long-term before their maturity to fund working capital or for other purposes. Because of regulatory requirements, certain investments are included in long-term investments regardless of their maturity date. We classify these investments as held to maturity and report them at amortized cost. All other investments are classified as available for sale and reported at fair value based on quoted market prices.

We exclude unrealized gains and losses on investments available for sale from earnings and report it, not of income tax effects, as a separate component of shareholders' equity. We continually monitor the difference between the cost and estimated fair value of our investments. If any of our investments experiences a decline in value that is determined to be other than temporary, based on analysis of relevant factors, we record a realized loss in Investment and Other Income in our Consolidated Statement of Operations. To calculate realized gains and losses on the sale of investments, we use the specific cost or amortized cost of each investment sold.

#### **Assets Under Management**

We administer certain aspects of AARP's insurance program (see Note 4). Purayant to our agreement, AARP assets are managed separately from our general investment portfolio and are used to pay costs associated with the AARP program. These assets are invested at our discretion, within investment guidelines approved by AARP. At December 31, 2003, the assets were invested in marketable debt secucities. We do not guarantee any rates of investment return on these investments and, upon transfer of the AARP contract to another entity, we would transfer cash equal in amount to the fair value of these investments at the date of transfer to that entity. Because the purpose of these assets is to fund the medical costs payable; the rate stabilization fund liabilities and other related liabilities associated with the AARP contract, assets under management are classified as current assets, consistent with the classification of these liabilities. Interest earnings and realized investment gains and losses on these assets accrue to AARP policyholders through the rate stabilization fund. As such, they are not included in our carnings. Interest income and realized gains and losses related to assets under management are recorded as an increase to the AARP rate stabilization fund and were \$101 million, \$102 million and \$113 million in 2003, 2002 and 2001, respectively. Assets under management are reported at their fair market value, and unrealised gains and losses are included directly in the rate stabilization fund associated with the AARP program. As of December 31, 2003 and 2002, the AARP investment portfolio and rate subilization fund included net unrealized gains of \$86 million and \$117 million, respectively.

# Property, Equipment and Capitalized Software

Property, equipment and capitalized software is stated at cost, net of accumulated depreciation and amortization. Capitalized software consists of certain costs incurred in the development of internal-use software, including external direct costs of materials and services and payroll costs of employees devoted to specific software development.

We calculate depreciation and amortization using the straight-line method over the estimated useful lives of the assets. The useful lives for property, equipment and capitalized software are: from three to seven years for furniture, fixtures and equipment; from 35 to 40 years for buildings; the shorter of the useful life or remaining lease-term for leasehold improvements; and from three to nine years for capitalized software. The weighted-average useful life of property, equipment and capitalized software at December 31, 2003, was approximately five years.

The net book value of property and equipment was \$503 million and \$490 million as of December 31, 2003 and 2002, respectively. The net book value of capitalized software was \$529 million and \$465 million as of December 31, 2003 and 2002, respectively.

#### Goodwill and Other Intangible Assets

Goodwill represents the amount by which the purchase price and transaction costs of businesses we have acquired exceed the estimated fair value of the net tangible assets and separately identifiable intangible assets of these businesses. Goodwill and intangible assets with indefinite useful lives are not amortized, but are tested at least annually for impairment. Intangible assets with discrete useful lives are amortized on a straight-line basis over their estimated useful lives.

#### Long-Lived Assets

We review long-lived assets, including property, equipment, capitalized software and intangible assets, for events or changes in circumstances that would indicate we might not recover their carrying value. We consider many factors, including estimated future utility and cash flows associated with the assets, to make this decision. An impairment charge is recorded for the amount by which an asset's carrying value exceeds its estimated fair value. We record assets held for sale at the lower of their carrying amount or fair value, less any costs for the final settlement.

#### Other Policy Liabilities

Other policy liabilities include the rate stabilization fund associated with the AARP program (see Note 4), customer balances related to experience-rated insurance products and the current portion of future policy benefits for life insurance and aunuity contracts. Customer balances represent excess customer payments and deposit accounts under experience-rated contracts. At the customer's option, these balances may be refunded or used to pay future premiums or claims under eligible contracts.

#### Income Taxes

Deferred income tax assets and liabilities are recognized for the differences between the financial and income tax reporting bases of assets and liabilities based on enacted tax rates and laws. The deferred income tax provision or benefit generally reflects the net change in deferred income tax assets and liabilities during the year, excluding any deferred income tax assets and liabilities of acquired businesses. The current income tax provision reflects the tax consequences of revenues and expenses currently taxable or deductible on various income tax returns for the year reported.

# Future Policy Benefits for Life and Annuity Contracts

Future policy benefits for life insurance and annuity contracts represents account balances that accrue to the benefit of the policyholders, excluding sucrender charges, for universal life and investment annuity products.

#### **Policy Acquisition Costs**

For our health insurance contracts, costs related to the acquisition and renewal of customer contracts are charged to expense as incurred. Our health insurance contracts typically have a one-year term and may be cancelled upon 30 days notice by either the company or the customer.

## Stock-Based Compensation

We account for activity under our stock-based employee compensation plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," Accordingly, we do not recognize compensation expense in connection with employee stock option grants because we grant stock options at exercise prices not less than the fair value of our common stock on the date of grant.

The following table shows the effect on net earnings and earnings per share had we applied the fair value expense recognition provisions of Statement of Financial Accounting Standards (FAS) No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation.

(in millions, except per state data).		-2003	For the Yea	r Ended Dece	mber \$1.	
NET EARNINGS	-	4003		2002		2001
As Reported	Š	1,825	\$	1.352	۵	018
Compensation Expense, net of tax effect		(122)	Ψ	(101)	\$	915
Pro Forma	\$	1,703	.\$	1. / /	_	(82)
BASIC NET EARNINGS PER COMMON SHARE	₽.	1,703		1,251	\$	831
As Reported	•	3.10		45.00		
Pro Forma	4		\$.	2:23	\$	1.46
DILUTED NET EARNINGS PER COMMON SHARE		2.89	- \$	2.06	\$	1.33
As Reported	\$	2.96	.\$	2.13	\$	1.40
Pro Forma	\$	2,76	\$	1.97	Ś	1.27
WEIGHTED AVERAGE FAIR VALUE PER SHARE OF			•		*	3.27
OPTIONS GRANTED	\$	11	, <b>\$</b>	14	\$	12

Information on our stock-based compensation plans and data used to calculate compensation expense in the table above are described in more detail in Note 10.

# Net Earnings Per Common Share

We compute basic net earnings per common share by dividing net earnings by the weighted average number of common shares outstanding during the period. We determine diluted net earnings per common shares outstanding during the period, adjusted for potentially dilutive shares that night be issued upon exercise of common stock options.

## Derivative Financial Instruments

As part of our risk management strategy, we enter into interest rate swap agreements to manage our exposure to interest rate risk. The differential between fixed and variable rates to be paid or received is accrued and recognized over the life of the agreements as an adjustment to interest expense in the Consolidated Statements of Operations. Our existing interest rate swap agreements convert a portion of our interest rate exposure from a fixed to a variable rate and are accounted for as fair value hedges. Additional information on our existing interest rate swap agreements included in Note 8.

# Recently Issued Accounting Standards

During 2003, we adopted the following accounting standards, which did not have a material impact on our consolidated financial position or results of operations: 1) FAS No. 143, "Accounting for Asset Retirement Obligations," which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs; 2) FAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which requires companies to recognize a liability for costs associated with exit or disposal activities when they are incurred, rather than at the date of a commitment to an exit or disposal plan; 3) Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees. Including indirect Guarantees of Indebtedness of Others," which requires that upon Issuantees of certain guarantees, a guarantor must

recognize a liability for the fair value of the obligation assumed under the guarantee; 4) Interpretation No. 46, "Consolidation of Variable Interest Entities — an Interpretation of ARB No. 51," which requires an enterprise to consolidate a variable interest entity if that enterprise has a variable interest that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both; 5) FAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," which amends and clarifies accounting for derivative instruments and hedging activities under FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and 6) FAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity," which establishes standards for classifying and measuring as liabilities certain freestanding financial instruments that represent obligations of the issuer and have characteristics of both liabilities and equity.

#### Reclassifications

Certain 2001 and 2002 amounts in the consolidated financial statements have been reclassified to conform to the 2008 presentation. These reclassifications have no effect on set earnings or shareholders' equity as previously reported.

#### 3 ACQUISITIONS

On February 10, 2004, our Health Care Services business segment acquired Mid Atlantic Medical Services, Inc. (MAMSI). MAMSI offers a broad range of health care coverage and related administrative services for individuals and employers in the mid-Atlantic region of the United States. This merger significantly strengthens UnitedHealthcare's market position in the mid-Atlantic region and provides substantial distribution opportunities for other UnitedHealth Group businesses. Under the terms of the purchase agreement, MAMSI shareholders received 0.82 shares of UnitedHealth Group common stock and \$18 in cash for each share of MAMSI common stock they owned. Total consideration issued was approximately \$2.7 billion, comprised of 36.4 million shares of UnitedHealth Group common stock (valued at \$1.9 billion based on the average of UnitedHealth Group's share closing price for two days before, the day of and two days after the acquisition announcement date of October 27, 2003) and \$800 million in cash. The purchase price and costs associated with the acquisition exceeded the preliminary estimated fair value of the net tangible assets acquired by approximately \$2.1 billion. We have preliminarily allocated the excess purchase price over the fair value of the net tangible assets acquired to finite-lived intangible assets of \$360 million and associated deferred tax liabilities of \$126 million, and goodwill of approximately \$1.9 billion. The finite-lived intangible assets consist primarily of member lists and health care physician and hospital networks, with an estimated weightedaverage useful life of 19 years. The acquired goodwill is not deductible for income tax purposes. Our preliminary estimate of the fair value of the tangible assets/(liabilities) as of the acquisition date, which is subject to further refinement, is as follows:

(tp. millions - milionitical)			
Cash, Cash Equivalents and Investments	-	. \$	736
Accounts Receivable and Other Current Assets		`\\	252
Property, Equipment, Capitalized Software and Other Assets			۽ ديـ 91
Medical Costs Payable			(292)
Other Current Liabilities			,
Net Tangible Assets Acquired	·		(132)
The Amilian mach unduited		<b>. 5</b>	655

The results of operations and financial condition of MAMSI have not been included in our Consolidated Statements of Operations or Consolidated Balance Sheets since the acquisition closed after December 31, 2003. The unaudited pro forma financial information presented below assumes that the acquisition of MAMSI had occurred as of the beginning of each respective period. The pro forma adjustments include the pro forma effect of UnitedHealth Group shares issued in the acquisition, the amortization of finite-lived intangible assets arising from the preliminary purchase price allocation, interest expense related to financing the cash portion of the purchase price and the associated income tax effects of the pro-forma adjustments. Because the unaudited pro-forma financial information has been prepared based on preliminary estimates of fair values, the actual amounts recorded as of the complotion of the purchase price allocation may differ materially from the information presented below. The unaudited pro-forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that would have occurred bad the MAMSI. acquisition been consummated at the beginning of the respective periods:

(in millions, except per share data) Revenues Net Earnings Earnings Per Share:	2008 (Pro Forma Unaudited) \$ 31,511 \$ 1,971	2002. (Pro Forma Unaudated): \$ 27,848, \$ 1,427		
Basic	\$ 3.15	\$ 2.22		
Diluted	\$ 3.02	\$ 2.12		

On November 13, 2003, our Health Care Services husiness segment acquired Golden Rule Financial Corporation and subsidiaries (Golden Rule). Golden Rule offers a broad range of health and life insurance and annuity products to the individual consumer market, and this acquisition provides UnitedHealth Group with a dedicated business to serve this market. We paid \$495 million in cash in exchange for all of the outstanding stock of Golden Rule. The purchase price and costs associated with the acquisition exceeded the preliminary estimated fair value of the net tangible assets acquired by approximately \$111 million. We have preliminarily affocated the excess purchase price over the fair value of the net tangible assets acquired to finite-lived intangible assets of \$55 million and associated deferred tax liabilities of \$17 million, and goodwill of \$75 million. The finite-lived intangible assets consist primarily of customer contracts and the present value of future operating profits from life insurance contracts, with an estimated weighted average useful life of 14 years. The acquired goodwill is not deductible for income tax purposes. The results of operations for Golden Rule since the acquisition date have been included in our consolidated financial statements. The proforms effects of the Golden Rule acquisition on our consolidated financial statements were not material. Our preliminary estimate of the fair value of the tangible assets/liabilities) as of the acquisition date is as follows:

(in millions)	14. 14. julija	-	-		
Cash and Cash Equivalents	·	. **			-
Accounts Receivable and Other Current Assets	N	-		-5.	32
Long-Term investments	- (,- ,-'-	. :	-		98
Property, Equipment and Capitalized Software					2,208
Medical Costs Payable		· ·		_	29
Other Current Liabilities		. en			(147)
Future Policy Benefits for Life and Annuity Conti	tacis.	* -*		•	(200)
Net Tangible Assets Acquired		e de la composición de la composición La composición de la	<del>-</del>	عاجما	(1,636)
				:₿.	584

Effective September 30, 2002, we acquired AmeriChoice Corporation (AmeriChoice), a leading organization engaged in facilitating health care benefits and services for Medicaid beneficiaries in the states of New York, New Jersey and Pennsylvania. We integrated our existing Medicaid business with AmeriChoice within the Health Care Services reporting segment, creating efficiencies from the consolidation of physician and health care provider networks, technology platforms and operations. We issued 5.3 million shares of our common stock with a fair value of approximately \$480 million in exchange for 93.5% of the outstanding AmeriChoice common stock. We also issued vested stock options with a fair value of approximately \$15 million in exchange for outstanding stock options held by AmeriChoice employees and paid cash of approximately \$82 million, mainly to pay off existing AmeriChoice debt. The purchase price and costs associated with the acquisition of approximately \$577 million exceeded the estimated fair value of the net tangible assets acquired by approximately \$541 million. The excess purchase price was assigned to goodwill in the amount of \$485 million, and finite-lived intangible assets, primarily customer contracts, in the amount of \$56 million. The weightedaverage useful life of the finite-lived intangible assets was approximately II years. The acquired goodwill is not deductible for income tax purposes. We will acquire the remaining minority interest in October 2007 at a value based on a multiple of the earnings of the combined Medicaid business. We have the option to acquire the minority interest at an earlier date if specific events occur, such as the termination or resignation of key AmeriChoice employees. The results of operations for AmeriChoice since the acquisition date have been included in our Consolidated Statements of Operations. The proforma effects of the AmeriChoice acquisition on our consolidated financial statements were not material. The estimated fair value of the tangible assets/(liabilities) as of the acquisition date was as follows:

(in millions)		
Cash and Cash Equivalents	9	32
Accounts Receivable and Other Current Assets	•	38
Long-Term Investments		151
Property, Equipment and Capitalized Software		21
Medical Costs Payable		(142)
Other Current Liabilities		(64)
Net Tangible Assets Acquired	 \$	96

For the years ended December 31, 2003, 2002 and 2001, aggregate consideration paid or issued for smaller acquisitions accounted for under the purchase method was \$127 million, \$267 million and \$134 million, respectively. These acquisitions were not material to our consolidated financial statements. In January 1998, we initiated a 10-year contract to provide health insurance products and services to members of AARP. Under the terms of the contract, we are compensated for transaction processing and other services as well as for assuming underwriting risk. We are also engaged in product development activities to complement the insurance offerings under this program, Premium revenues from our portion of the AARP insurance offerings were approximately \$4.1 billion in 2003, \$3.7 billion in 2002 and \$5.6 billion in 2001.

The underwriting gains or losses related to the AARP business are directly recorded as an increase or decrease to a rate stabilization fund (RSF). The primary components of the underwriting results are premium revenue, medical costs, investment income, administrative expenses, member service expenses, marketing expenses and premium taxes. Underwriting gains and losses are recorded as an increase or decrease to the RSF and accrue to AARP policyholders, unless cumulative net losses were to exceed the balance in the RSF. To the extent underwriting losses exceed the balance in the RSF, we would have to fund the deficit. Any deficit we fund could be recovered by underwriting gains in future periods of the contract. To date, we have not been required to fund any underwriting deficits. The RSF balance is reported in Other Policy Liabilities in the accompanying Consolidated Balance Sheets. We believe the RSF balance is sufficient to cover potential future underwriting or other risks associated with the contract.

The following AARP program-related assets and liabilities are included in our Consolidated Balance-Sheets:

(on (millions)	Balance as of December 3).						
	2003	2002					
Account Receivable	\$ 352	\$ 294					
Assets Under Management	\$ 1,959	\$ 2,045					
Medical Costs Payable	\$ 874	\$ 893					
Other Policy Liabilities	\$ 1,275	\$ 1,299					
Other Current Liabilities	\$ 162	\$ 147					

The effects of changes in balance sheet amounts associated with the AARP program accrue to AARP policyholders through the RSF balance. Accordingly, we do not include the effect of such changes in our Consolidated Statements of Cash Flows.

#### 5 CASH, CASH EQUIVALENTS AND INVESTMENTS

As of December 31, the amortized cost, gross unrealized gains and losses, and fair value of cash, cash equivalents and investments were as follows (in millions):

2003	Amortized Cost	Gross Unresuzed Gains	Gross Unrealized Losses	Faur Value	
Cash and Cash Equivalents	\$ 2,262	<b>s</b> -	· <b>\$</b> —	\$ 2,262	
Debt Securities — Available for Sale	6,737	229	(6)	6,960	
Equity Securities — Available for Sale	173	g	(1)	181	
Debt Securities - Held to Manurity	74	~	-	74	
Total Cash and Investments	\$ 9,246	\$ 238	<b>\$</b> (7)	\$ 9,477	
2062					
Cash and Cash Equivalents	\$ 1,130	\$ -	<b>\$</b> ~	\$ 1,150	
Debt Securities — Available for Sale	4,742	238	(8)	4,972	
Equity Securities - Available for Sale	150-	5	(5)	150	
Debt Securities - Held to Maturity	77	-	-	77	
Total Cash and Investments	\$ 6,099	\$ 243	\$ (13)	\$ 6,329	

As of December \$1, 2003 and 2002, respectively, debt securities consisted of \$1,221 million and \$1,439 million in U.S. Government and Agency obligations, \$2,617 million and \$2,475 million in state and municipal obligations, and \$3,196 million and \$1,135 million in corporate obligations. At December 31, 2003, we held \$563 million in debt securities with maturities of less than one year. \$2,102 million in debt securities maturing in one to five years, \$2,554 million in debt securities maturing in five to 10 years and \$1,815 million in debt securities with maturities of more than 10 years.

During 2001, we contributed United Health Capital investments valued at approximately \$22 million to the United Health Foundation, a non-consolidated, not for-profit organization. The realized gain of approximately \$18 million was offset by related contribution expense of \$22 million. The net expense of \$4 million is included in Investment and Other Income in the accompanying Consolidated Statements of Operations.

We recorded realized gains and losses on sales of investments, excluding the United Health Capital dispositions described above, as follows:

	,¥π	For the Year Ended December 31:			
(anoillier as)	 2003		2002		2001
Gross Realized Gains	\$ 45	\$	57	\$	30
Gross Realized Losses	 (23)		(75)		(19)
Net Realized Cains (Losses)	 \$ 22	\$	(18)	\$	31

# 6 GOODWILL AND OTHER INTANGIBLE ASSETS

We adopted FAS No. 142, "Goodwill and Other Intangible Assets," on January 1, 2002. Under FAS No. 142, goodwill and intangible assets with indefinite useful lives are not amortized. The following table shows net earnings and earnings per common share adjusted to reflect the adoption of the non-amortization provision of FAS No. 142 as of the beginning of the respective periods:

(in stillions, except per share data)		2003	For the Yes	ar Ended Dece 2002	ember 31.	2001
NET EARNINGS						
Reported Net Earnings	S	1,825	<b>s</b> .	1.352	\$	913
Goodwill Amortization, net of tax effects	-		•	_		89
Adjusted Net Earnings	.\$	1,825	\$	1,352	\$	1.002
BASIC NET EARNINGS PER COMMON SHARE Reported Basic Net Earnings per Share Goodwill Amortization, net of tax effects	\$	3.10	\$	2.23	\$	1.46
Adjusted Basic Net Earnings per Share	\$	ġ.10	\$	2.23	\$	0.14 1.60
DILUTED NET EARNINGS PER COMMON SHARE Reported Diluted Net Earnings per Share Goodwill Amortization; net of tax effects	\$	2.96	\$	2.13	\$	1.40 0.13:
Adjusted Diluted Net Earnings per Share	. \$	2.96	\$	2.13	\$	1.53

Changes in the carrying amount of goodwill, by operating segment, during the year ended December 31, 2003, were as follows:

(in millsons) Balance at January 1, 2002 Acquisitions and Subsequent Payments Dispositions	Health Care Services \$ 1,166 527	Uniprise \$ 698	Specialized Care Services \$ 322 41	lagener \$ 537 75	Consolidated Total \$ 2,723 648
Balance at December 31, 2002 Acquisitions and Subsequent Payments Balance at December 31, 2603	1,693 77 \$ 1,770	698 - \$ 698	363 46 \$ 409	(3) 609 23 \$ 632	(3) 3,563 146 \$ 3,509

The weighted average useful life, gross carrying value, accumulated amortization and ner carrying value of other intangible assets as of December 31, 2003 and 2002 were as follows:

	Walangen -		oceanier 31, 200	) j	Ontomber 31, 2002			
(in mithees) Customer Contracts and	Aderson Usefus Link	Gross Carryling Value	Accessibled Amortization	Net Conylog Value	Gross Carryson Value	Accumulated Americation	Net Carrying Value	
Membership Lists Patents, Trademarks	12 years	\$ 93	\$ (6)	\$ 87	\$ <del>6</del> 4	\$ (1)	\$ 68	
and Technology Other	9 years 14 years	73 57	(26) (11)	47 46:	.58 91	(24) (6)	54 25	
Total	10 years	\$ 223	\$ (43)	\$ 180	\$ 158	\$ (31);	\$ 122	

Amortization expense relating to intangible assers was \$18 million in 2003 and \$9 million in 2002. Estimated future amortization expense relating to intangible assets for the years ending Decomber 31 are as follows:

(in millions)	\$	2004 21	Š	2005 20.	·	1906 10	2007	2008
	*	A1 .	•	<del>2</del> U.	. \$.	19	\$ 18	\$ 17

# 7 MEDICAL COSTS PAYABLE

The following table shows the components of the change in medical costs payable for the years ended December 31:

(in millions)	2003	2002	2001
MEDICAL COSTS PAYABLE, BEGINNING OF PERIOD	\$ 3,741	\$ 3:460	\$ 3.266
ACQU)SITIONS	165	180	17
REPORTED MEDICAL COSTS	";		1,
Current Year	20,864	18,262	17,674
_ Prior Years	(150)	(70)	(30)
Total Reported Medical Costs	20,714	18.192	17,644
CLAIM PAYMENTS	•	,	17,017
Payments for Current Year	(17,411)	(15,147)	(14,536)
Payments for Prior Years	(3,057)	(2.944)	(2.951)
_ Total Claim Payments	(20,468)	(18,091)	(17,467)
MEDICAL COSTS PAYABLE, END OF PERIOD	\$ 4,152	\$ 3,741	\$ 3.460

# 8 COMMERCIAL PAPER AND DEBT

Commercial paper and debt consisted of the following:as of December 31:

	<del></del>	2003 .		2002
(in millions)	Cārrýnng Value	Fair Välte	Carrying Value	Fair Value
Commercial Paper	S 79	<b>S</b> 79	\$ 46.1	\$ 461
Floating-Rate Notes		•	<b>V</b> 10,1	A 401
due November 2003	-	_	100	100
5.6% Senior Unsecured Notes			200	to()
due December 2003	_	_	250	260
Floating-Rate Notes			-2,0	200
due November 2004	150	150.	150	150
7.5% Senior Unsecured Notes	754	244	İoo	150
due November 2005	400	438	400	:4EΛ
5.2% Senior Unsegured Notes		100	700	450
due January 2007	400	427	400	400
3.3% Senior Unsecured Notes		341	-150	423
due January 2008	500	499	-+-	
4.9% Senior Unsecured Notes		100	-	-
duc April 2015	450	454		_
Total Commercial Paper and Debt	1,979	2.047	1,761	
Less Current Maturities	(229)			1,844
Long Term Debt, less current maturities	\$ 1,750	• •	(811)	(821)
and a series and a series of the series of t	3 1,/3u	5 1,818	\$ 950	\$ 1.025

As of December 31, 2003, our outstanding commercial paper had interest rates of approximately 1.2%. The interest rates on our November 2004 floating-rate notes are reset quarterly to the three-month LIBOR (London Interbank Offered Rate) plus 0.6%. As of December 31, 2003, the applicable rate on the notes was 1.8%.

In December 2003, we issued \$500 million of 3.3% fixed-rate notes due January 2008, and in March 2003, we issued \$450 million of 4.9% fixed-rate notes due April 2013. We used the proceeds from these borrowings to repay commercial paper and term debt maturing in 2003, and for general corporate purposes including working capital, business acquisitions and share repurchases.

We have interest rate awap agreements that qualify as fair value heriges to convert a portion of our interest rate exposure from a fixed to a variable rate. The interest rate swap agreements have aggregate notional amounts of \$925 million with variable rates that are benchmarked to the six-month LIBOR rate and are reset on a semiannual basis in arrears. At December 31, 2003, the rate used to accrue interest expense on these agreements ranged from 1.2% to 1.6%. The differential between the fixed and variable rates to be paid or received is accrued and recognized over the life of the agreements as an adjustment to interest expense in the Consolidated Statements of Operations.

We have credit arrangements for \$900 million that support our commercial paper program. These credit arrangements include a \$450 million revolving facility that expires in July 2005, and a \$450 million. \$64-day facility that expires in July 2004. As of December 31, 2003, we had no amounts outstanding under our credit facilities.

Our debt arrangements and credit facilities contain various covenants, the most restrictive of which require us to maintain a debt-to-total-capital ratio below 45% and to exceed specified minimum interest coverage levels. We are in compliance with the requirements of all debt covenants.

Maturities of commercial paper and debt for the years ending December 31 are as follows:

(in millions)		2004	2005	-72	2006	2007		2008	İ	hereafter.
<del>:</del>	-\$	229	\$ 400	\$	_	\$ 400	8	500	\$	150

We made cash payments for interest of \$94 million. \$86 million and \$91 million in 2003, 2002 and 2001, respectively.

On February 10, 2004, we issued \$250 million of 3.8% fixed-rate notes due February 2009 and \$250 million of 4.8% fixed-rate notes due February 2014 to finance a majority of the cash portion of the MAMSI purchase price as described in Note 5. When we issued these notes, we enterest into interest rate swap agreements that qualify as fair value hedges to convert our interest rates from a fixed to a variable rate. The interest rate swap agreements have aggregate notional amounts of \$500 million with variable rates that are benchmarked to the six-month LIBOR rate and are reset on a semiannual basis in arrears. As of the date of the note issuance; the rate on these agreements ranged from 1.4% to 1.6%.

## 9 SHAREHOLDERS' EQUITY

# Regulatory Capital and Dividend Restrictions

We conduct a significant portion of our operations through companies that are subject to standards established by the National Association of Insurance Commissioners (NAIC). These standards, among other things, require these subsidiaries to maintain specified levels of statutory capital, as defined by each state, and restrict the timing and amount of dividends and other distributions that may be paid to their parent companies. Generally, the amount of dividend distributions that may be paid by a regulated subsidiary, without prior approval by state regulatory authorities, is limited based on the entity's level of statutory net income and statutory capital and surplus. At December 31, 2003, approximately \$385 million of our \$9.5 billion of cash and investments was held by non-regulated subsidiaries. Of this amount, approximately \$45 million was segregated for future regulatory capital needs and the remainder was available for general corporate use, including acquisitions and share repurchases.

The agencies that assets our creditworthiness also consider capital adequacy levels when establishing our debt ratings. Consistent with our intent to maintain our senior debt ratings in the "A" range, we maintain an aggregate statutory capital and surplus level for our regulated subsidiaries that is significantly higher than the minimum level regulators require. As of December 31, 2003, our regulated subsidiaries had aggregate statutory capital and surplus of approximately \$3.1 billion, which is significantly more than the aggregate minimum regulatory requirements.

### Stock Repurchase Program

Under our board of directors' authorization, we maintain a common stock repurchase program. Repurchases may be made from time to time at prevailing prices, subject to certain restrictions on volume, pricing and timing. During 2003, we repurchased 33 million shares at an average price of approximately \$47 per share and an aggregate cost of approximately \$1.6 billion. As of December 31, 2003, we had board of directors' authorization to purchase up to an additional 45 million shares of our common stock,

## Common Stock Split

In May 2003, our board of directors declared a two-for-one split of the company's common stock in the form of a 100% common stock dividend. The stock dividend was issued on June 18, 2003, to shareholders of record as of June 2, 2003. The accompanying consolidated financial statements have been restated to reflect the share and per share effects of the common stock split.

#### Preferred Stock

At December \$1, 2003, we had 10 million shares of \$0,001 par value preferred stock authorized for issuance, and no preferred shares issued and outstanding.

## 10 STOCK-BASED COMPENSATION PLANS

As of December 31, 2003, we had approximately 42 million shares available for future grants of stock-based awards under our stock-based compensation plan including, but not limited to, incentive or non-qualified stock options, stock appreciation rights and restricted stock.

Stock options are granted at an exercise price not less than the fair value of our common stock on the date of grant. They generally vest ratably over four years and may be exercised up to 10 years from the date of grant. Activity under our stock option plan is summarized in the table below (shares in thousands):

	Shares	ed-Average ise Price	2002 Weighted Average Shares Exercise Price			Shárés		2001 Weighted Average Exercise Price	
Outstanding at Beginning of Year	86,402	\$	21	75,674	\$	15	77,621	\$	iı
Granted	18,426	\$	44	25,033	\$	38	16,277	\$	27
Assumed in Acquisitions	. 📆	ş	-	914	\$	:30	388	\$	10
Exercised	(15,340)	\$	15	(13.227)	\$	14	(15,432)	. \$	10
Forfeigd	(2,182)	\$.	30	(2,992)	\$	20	(2.180)		13
Outstanding at End of Year	87,306	\$:	27	86,402	\$	21	76,674	\$	15
Exercisable at End of Year	42,693	\$.	16	41,391	\$	12	39,170	\$	11
As of December 31, 2003			Options Outstan Weighted Average	dìng .		~	Opinous.5	xercisabi	ė
Range of Emercine Prices	Number - Outstanding	(	Remaining Option Term (years)	Weighted Average			Number Exercisable	Weighted-Average Exercise Price	
\$ 0-\$10	18,395		5.4	.\$	10		18.228	\$	10
\$1,1 - \$20	17,063		4,9	Ś	14		14.442	Š	13
\$21 - <b>\$3</b> 5′	23,670		7.5	\$	30		7.318	*	29
\$36 - \$55	28,178		9.1	.8	43		2:705	Š	42
\$ 0-855	87,306		7.1	.\$	27		42,693	\$	16

To determine compensation expense under the fair value method, the fair value of each option grant is estimated on the date of grant using an option-pricing model. During 2001 and 2002 we utilized a Black-Scholes model for purposes of estimating the fair value of our employee stock option grants. During 2003, we began using a binomial model that considers certain factors that the Black-Scholes model does not, such as historical exercise patterns and the illiquid nature of employee options. For these reasons, we believe that the binomial model provides a more representative employee stock option fair value. The principal assumptions we used in applying the option pricing models were as follows:

			2003	2002	2001
Risk-Proc Interest Rate	-		2,6%	2.5%	8.7%
Expected Volatility			30.9%	40.2%	45,9%
Expected Dividend Yield			0.1%	0.1%	0.1%
Exported Life in Years			4.1	4.5	4.8

Information regarding the effect on net earnings and net earnings per common share had we applied the fair value expense recognition provisions of FAS No. 123 is included in Note 2. We also maintain a 401(k) plan and an employee stock purchase plan. Activity related to these plans was not significant in relation to our consolidated financial results in 2003, 2002 and 2001.

#### 11 INCOME TAXES

The components of the provision (benefit) for income taxes are as follows:

Year Ended December 31, (in millions)	2003	2002	2001
Current Provision			
Federal	\$ 9 <b>3</b> 2	\$ 675	\$ 524
State and Local	46	<b>5</b> 7	45
Total Current Provision	978	732	569
Deferred Provision (Benefit)	37	12	(10)
Total Provision for Income Taxes	\$ 1,015	\$ 744	\$ 559

The reconciliation of the tax provision at the U.S. Federal Statutory Rate to the provision for income taxes is as follows:

Year Ended December 31, (in millions)	2003	2002	2001
Tax Provision at the U.S. Federal Statutory Rate	\$ 994	\$ 734	\$ 515
State Income Taxes, net of federal benefit	29	'33	29
Tax-Exempt Investment Income	(30)	(26),	(21)
Non-deductible Amortization	**		29
Other, tiet	22	.5	7
Provision for Income Taxes	\$ 1,015	\$ 744	\$ 559

The components of deferred income tax assets and liabilities are as follows:

As of December 31, (in millions)	2	003		2002
Deferred Income Tax Assets				
Accrued Expenses and Allowances	\$	161	\$	215
Unearned Premiums		28		47
Medical Costs Payable and Other Policy Liabilities		83		60
Long-Term Liabilines		49		37
Net Operating Loss Carryforwards		86		6.1
Other		42		<b>3</b> 0
Subtotal	-	149		450
Less: Valuation Allowances		(43)		(39)
Total Deferred Income Tax Assets		406		413
Deferred Income Tax Lizbilities				
Capitalized Software Development	ĺ	186)		(176)
Net Unrealized Gains on Investments		(82)		(82)
Depreciation and Amortization	(	108)		(54)
Total Deferred Income Tax Liabilities	1	376)	-	(312)
Net Deferred Income Tax Assets	<u> </u>	30	\$	99

Valuation allowances are provided when it is considered more likely than not that deferred tax assets will nor be realized. The valuation allowances primarily relate to future tax benefits on certain federal and state net operating loss carryforwards. Federal net operating loss carryforwards expire beginning in 2012 through 2023, and state net operating loss carryforwards expire beginning in 2005 through 2023.

We made cash payments for income taxes of \$783 million in 2003, \$458 million in 2002 and \$384 million in 2001. We increased additional paid in capital and reduced income taxes payable by \$222 million in 2003, and by \$153 million in both 2002 and 2001 to religit the tax benefit we received upon the exercise of non-qualified stock options.

Consolidated income tax returns for fiscal years 2000 through 2002 are currently being examined by the Internal Revenue Service. We do not believe any adjustments that may result from the examination will have a significant impact on our consolidated financial position or results of operations.

#### 12 COMMITMENTS AND CONTINGENCIES

#### Leases

We lease facilities, computer hardware and other equipment under long-term operating leases that are noncancelable and expire on various dates through 2025. Rent expense under all operating leases was \$133 million in 2003, \$132 million in 2002 and \$135 million in 2001.

At December 31, 2003, future minimum annual lease payments, net of sublease income, under all noncancelable operating leases were as follows:

(क्र क्रांक्षिलह)	2004	2005	2006	2007	2008	Thereafter
	\$ 103	\$ 98	\$ 87	\$ 80	\$ 64	\$ 191

#### Service Agreements

We have noncancelable contracts for certain data center operations and support, network and voice communication services, and other services; which expire on various dates through 2008. Expenses incurred in connection with these agreements were \$256 million in 2003, \$264 million in 2002 and \$254 million in 2001. At December \$1, 2008, future minimum obligations under our noncancelable contracts were as follows:

(in milions)	2004	2005	2006	2007	2008
•	\$ 83	\$ 56	\$ 43	\$ 10	\$ 4

#### **Legal Matters**

Because of the nature of our businesses, we are routinely party to a variety of legal actions related to the design, management and offerings of our services. We record liabilities for our estimates of probable costs resulting from these matters. These matters include, but are not limited to: claims relating to health care benefits coverage, medical malpractice actions, contract disputes and claims related to disclosure of certain business practices. Following the events of September 11, 2001, the cost of business insurance coverage increased significantly. As a result, we have increased the amount of risk that we self-insure; particularly with respect to matters incidental to our business.

Beginning in 1999; a series of class action lawsuits were filed against us and virtually all major entities in the health benefits business. Generally, the health care provider plaintiffs allege violations of the Employee Retirement Income Security Act of 1974, as amended (ERISA), and the Racketeer Influenced Corrupt Organization Act (RICO), as well as several state law claims. The suit seeks injunctive, compensatory and equitable relief as well as restitution, costs, fees and interest payments. We are engaged in discovery in this matter. A trial date has been set for September 13, 2004.

In March 2000, the American Medical Association filed a lawsuit against the company in connection with the Calculation of reasonable and customary reimbursoment rates for non-network providers. The suit seeks declaratory, injunctive and componiatory relide as well as coats, fees and interest payments. An amenided complaint was filed on August 25, 2000, which alleged two classes of plaintiffs an ERISA class and a non-ERISA class. After the court dismissed certain ERISA classis and the claims brought by the American Medical Association, a third amended complaint was filed. On October 25, 2002, the court granted in part and denied in part our motion to dismiss the third amended complaint. We are engaged in discovery in this matter.

Although the results of pending litigation are always uncertain, we do not believe the results of any such actions currently threatened or pending, including those described above, will, individually or in aggregate, have a material adverse effect on our consolidated financial position or results of operations.

### Government Regulation

Our business is regulated at federal, state, local and international levels. The laws and rules governing our business are subject to frequent change, and agencies have broad latitude to administer those regulations. State legislatures and Congress continue to focus on health care issues as the subject of proposed legislation. Existing or future laws and rules could force us to change how we do business, restrict revenue and enrollment growth, increase our health care and administrative costs and capital requirements, and increase our liability related to coverage interpretations or other actions. Further, we must obtain and maintain regulatory approvals to market many of our products.

We are also subject to various ongoing governmental investigations, audits and reviews, and we record liabilities for our estimate of probable costs resulting from these matters. Although the results of pending matters are always uncertain, we do not believe the results of any of the current investigations, audits or reviews, individually or in the aggregate, will have a material adverse effect on our consolidated financial position or results of operations.

### 13 SEGMENT FINANCIAL INFORMATION

Factors used in determining our reportable business segments include the nature of operating activities. existence of separate senior management teams, and the type of information presented to the company's chief operating decision-maker to evaluate our results of operations.

Our accounting policies for business segment operations are the same as those described in the Summary of Significant Accounting Policies (see Note 2). Transactions between business segments principally consist of customer service and transaction processing services that Uniprise provides to Health Care Services, certain product offerings sold to Uniprise and Health Care Services customers by Specialized Care Services, and sales of medical benefits cost, quality and utilization data and predictive modeling to Health Care Services and Uniprise by Ingenix. These transactions are recorded at management's best estimate of fair value, as if the services were purchased from or sold to third parties. All intersegment transactions are eliminated in consolidation. Assets and liabilities that are jointly used are assigned to each segment using estimates of pro-rata usage. Cash and investments are assigned such that each segment has minimum specified levels of regulatory capital or working capital for nonregulated businesses. The "Corporate and Eliminations" column includes costs associated with companywide process improvement initiatives, net expenses from charitable-contributions to the United Health Foundation and eliminations of intersegment transactions. Substantially all of our operations are conducted in the United States.

In accordance with accounting principles generally accepted in the United States of America, segments with similar economic characteristics may be combined. The financial results of United Healthcare, Ovations and AmeriChoice have been combined in the Health Care Services. segment column in the tables presented on the next page because these businesses have similar economic characteristics and have similar products and services, types of customers, distribution methods and operational processes, and operate in a similar regulatory environment, typically within the same legal entity.

The following table presents segment financial information as of and for the years ended December 31, 2003, 2002 and 2001 (m.millions):

2003		Health Care Services		PI		pecialized				k porate		
Revenues — External Customers	4			Uruprise		re Sérvices		ngentr.		Proinations.		olidated
Revenues Intersegment	4	24,592	Þ	2,496	Ş	1,677	\$		\$.	_	\$ 2	8.566
Investment and Other Income		-		583		787		173	(	1,543)	•	_
		215		28		14		-	•			257
Total Revenues	\$	24,807	\$	3,107	\$	1,878	\$	574	\$(	1,543)	\$ 2	8,823
Earnings From Operations	-\$	1,865	\$	610	\$	385	s	75	\$		n	0.00=
Total Assets	Ś	13,597	2		Š	1,191	Š	919		(000)	3.	2,935
Net Assets'	\$		7		š	710	\$	766	\$ \$	(366) (347)		7,365 7,253
Purchases of Property, Equipment and Capitalized Software		· ino							•	<b>V v</b> - <b>y</b>	*	·,,0
Depreciation and Amortization	Ş	122	\$		\$	48	- 5	52	·.S	_	*	352
Selection into Winds (138/100)	\$	1.16	\$	86	\$	40	\$	57	- <u>\$</u> \$	_	\$ \$	299
2002					-	•			•		*	
Revenues — External Customers	ė	21,373		d she			-: .					
Revenues - Intersegment	4	41,013	4	2.175	\$	897	\$	355	:\$	-	\$ 2	4,800
Investment and Other Income		100		523		598		136	C	1;257)	•	_
Total Revenues	_	179		27	_	14		· -	•	`` <u>-</u>		220
Toen vesendes	-\$	21,552	\$	2,725	\$	1,509	\$	491	\$(1	1,257)	\$ 2	5,020
Earnings From Operations	e	1.328	ė	637		000	_		_			•
Total Assets	ž	10.522	Š	517	7	286	\$	55	\$	7	\$ 3	2,186
Net Assets!	Š		3	1,914	\$\$ \$\$ \$\$	974	- \$	902	\$	(537)	\$ 13	3,775
	φ	7,373	Ф.	1,097	<b>7</b>	602	\$	763	<b>*\$</b>	(517)		5.324
Purchases of Property, Equipment			•							,	·	
and Capitalized Software	\$	129	\$	159	- 6	59	ė	₹n				
Depreciation and Amortization	Ś	102	š	69	\$	36	\$ \$	72	\$ \$	_	\$	419
•	•		Ψ	γa	<del>19</del> 7 -	,7I)	Ď.	48	2	-	\$	255
2001				•								
Revenues - External Customers	\$	20,168	\$	1.932	\$	734	\$	ano.			4	
Revenues — Intersegment	_		de.	508	. 🎔			339	\$	<u>,</u> , <del>-</del> , −	\$ 23	3,173
Investment and Other Income		235		34		504		.108	(3	,120)		
Total Revenues		20.403				16				(4)		281
	ā	20,403	\$	2,474	\$	1,254	\$	.447	\$(1	.124)	\$ 23	3,454
Earnings From Operations	\$	936	ė	-382	٠	07.4			v ma		,	
Total Assets	ģ	9.014	\$	7,737	\$ \$ \$	214	40 40 to	48	\$	(14)		,566
Net Assets	Š:	3,408			. 3	848	¥	771		(200)	\$ 12	,170
	φ.	A THE	9	1.020	-₹	514	.5	646	\$	(158)	\$ 5	,430
Purchases of Property, Equipment			•									
and Capitalized Software	\$	152	*	171	T de	***	A	1000				
Depreciation and Amortization	\$	101	. \$	81	\$	33	\$	69	1\$			425
	•	101	. 47-	: -0.1	-20	35-	<b>35</b> .	50	.2.		4	922

Total Assets and Not Assets excitate, where applicable, debt and accross interest of \$1,995 million, \$1,775 million and \$1,503 million and \$1,503 million, and income carrelated highlities of \$401 million, \$510 million and \$252 million as of December 31, 2003, 2002 and 2001, respectively.

# 14 QUARTERLY FINANCIAL DATA (UNAUDITED)

(m millions, except per share data)	March 31	For the Quarter Ended June 30 September 30 December 31
2003		
Revenues	\$ 6,975	\$ 7.087 \$ 7,238 \$ 7,523
Medical and Operating Expenses	5 6.322	\$ 7,087 \$ 7,238 \$ 7,523 \$ 6,378 \$ 6,475 \$ 6,713
Earnings From Operations	\$ 653	\$ 709 \$ 763 \$ 810
Net Earnings	\$ 403	\$ 439 \$ 476 \$ 507
Basic Net Earnings per Common Share	\$ 0.68	\$ 0.74 \$ 0.81 \$ 0.87
Diluted Net Earnings per Common Share	\$ 0.65	\$ 0.71 \$ 0.77 \$ 0.83
2002		
Revenues	\$ 6,013	\$ 6,078 \$ 6,247 \$ 6,682
Medical and Operating Expenses	\$. 5,53)	\$ 5,555 \$ 5,675 \$ 6,073
Earnings From Operations	\$ 48 <del>2</del>	\$ 523 \$ 572 \$ 609
Net Earnings	\$ 295	\$ 325 \$ 353 \$ 379
Basic Net Earnings per Common Share	\$. 0.48	\$ 0.53 \$ 0.59 \$ 0.63
Diluted Net Earnings per Common Share	<b>\$</b> 0.46	\$ 0.51 \$ 0.56 \$ 0.60

## Report of Management

The management of UnitedHealth Group is responsible for the integrity and objectivity of the consolidated financial information contained in this annual report. The consolidated financial statements and related information were prepared according to accounting principles generally accepted in the United States of America and include some amounts that are based on management's best estimates and judgments.

To meet its responsibility, management depends on its accounting systems and related internal accounting controls. These systems are designed to provide reasonable assurance, at an appropriate cost, that financial records are reliable for use in preparing financial statements and that assets are safeguarded. Qualified personnel throughout the organization maintain and monitor these internal accounting controls on an ongoing basis.

The Audit Committee of the board of directors, composed entirely of directors who are not employees of the company, meets periodically and privately with the company's independent auditors and management to review accounting, auditing, internal control, financial reporting and other matters.

William W. McGuire, MD. Chairman and Chief Executive Officer.

Stephen J. Hernsley President and Chief Operating Officer

Patrick J. Erlandson Chief Financial Officer

### Independent Auditors' Report

To the Board of Directors and Shareholders of UnitedHealth Group Incorporated and Subsidiaries:

We have audited the accompanying consolidated balance sheets of UnitedHealth Group Incorporated and Subsidiaries (the "Company") as of December 31, 2003 and 2002 and the related statements of operations, changes in shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The consolidated financial statements of UnitedHealth Group Incorporated and Subsidiaries for the year ended December 31, 2001 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those consolidated financial statements in their report dated January 24, 2002.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 6 to the consolidated financial statements, effective January 1, 2002, the Company changed its methods of accounting for goodwill and other intangible assets.

As discussed above, the consolidated financial statements of UnitedHealth Group Incorporated and Subsidiaries for the year ended December 31, 2001 were audited by other auditors who have ceased operations. As described in Note 6, Note 7 and Note 9, these consolidated financial statements have been revised to (i) include the transitional disclosures required by Statement of Financial Accounting Standards ("Statement") No. 142, Goodwill and Other Intangible Assets, which, as described in Note 6, was adopted by the Company as of January 1, 2002, (ii) include disclosure of the components of the change in medical costs payable consistent with Statement of Position 945, Disclosure of Certain Matters in the Financial Statements of Insurance Enterprises, and (iii) give effect to the June 2003 stock split. Our audit procedures with respect to the disclosures in Note 6 with respect to 2001 included (i) agreeing the previously reported net income to the previously issued consolidated financial statements and the adjustments to reported net income representing amortization expense (including any related tax effects), recognized in those periods related to goodwill, intangible assets that are no longer being amortized, deferred credits related to an excess over cost, equity method goodwill, and changes in amortization periods for intangible assets that will continue to be amortized as a result of initially applying Statement No. 142 (including any related tax effects) to the Company's underlying records obtained from management, and (ii) testing the mathematical accuracy of the reconciliation of adjusted net income to reported net income, and the related earnings-per-share amounts. Our audit procedures with respect to the disclosures in Note 7 with respect to 2001 included (i) agreeing the previously reported beginning and end of year medical costs payable to the previously issued consolidated financial statements. (ii) agreeing the previously reported medical costs to the previously issued consolidated financial statements; (iii) agreeing paid claims payments and prior years' medical costs change in medical costs payable to supporting documentation of claims payment detail, and (iv) testing the mathematical accuracy of the components of the change in medical costs payable. Additionally, as described in Note 9, the 2001 consolidated financial statements have been revised to give effect to the stock split June 18, 2003. We audited the adjustments described in Note 9 that were applied to revise the 2001 consolidated financial statements for such stock split. Our audit procedures included (1) comparing the amounts shown in the earnings per share disclosure for 2001 to the Company's underlying accounting analysis obtained from management, (2) comparing the previously reported shares outstanding and income statement amounts per the Company's accounting analysis to the previously issued consolidated financial statements; and (3) recalculating the additional shares to give effect to the stock split and testing the mathematical accuracy of the underlying analysis. In our opinion, the disclosures for 2001 in Notes 6 and 7 are appropriate, and the adjustments for the stock split described in Note 9 have been appropriately applied. However, we were not engaged to andit; review, or apply any procedures to the 2001 consolidated financial statements of the Company other than with respect to such adjustments and accordingly, we do not express an opinion or any other form of assurance on the 2001 consolidated financial statements taken as a whole.

DELOFTE & TOUCHE LLP Minneapolis, Minnesota February 10, 2004

### Independent Auditors' Report

The following audit report of Arthur Andersen LLP, our former independent auditors, is a copy of the original report dated January 24, 2002, rendered by Arthur Andersen LLP on our consolidated financial statements included in our Annual Report on Form 10-K filed on April 1, 2002, and has not been reissued by Arthur Andersen LLP since that date.

To the Shareholders and Directors of United Health Group Incorporated:

We have audited the accompanying consolidated balance sheets of UnitedHealth Group Incorporated (a Minnesota Corporation) and Subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of UnitedHealth Group Incorporated and its Subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP Minneapolis, Minnesota January 24, 2002

### Corporate and Business Leaders

UnitedHealth Group

William W. McGuire, MD

Chairman and Chief Executive Officer

Stephen J. Hemsley

President and Chief Operating Officer

Patrick J. Erlandson

Chief Financial Officer

David J. Lubben General Counsel

Jeannine M. Rivet

Executive Vice President

Reed V. Tuckson, MD Senior Vice President

Consumer Health and Medical Care Advancement

L. Robert Dapper Senior Vice President

Human Capital Tracy L. Bahl

Senior Vice President and Chief Marketing Officer

John S. Penshorn

Director of Capital Markets Communications and Strategy

UnitedHealthcare

Robert J. Sheeby Chief Executive Officer

Golden Rüle

Therese A. Rooney

Chairwoman and Chief Executive Officer

Ovations

Lois Quam

Chief Executive Officer

AmeriChoice

Anthony Welters

Chief Executive Officer

Uniprise

R. Channing Wheeler

Chief Executive Officer

**Specialized Care Services** 

David S. Wichmann

Chief Executive Officer

Ingenix

Kevin W. Pearson Chief Executive Officer

### **Board of Directors**

William C. Ballard, Jr.

Of Counsel

Greenebaum Doll & McDonald PLLC A Louisville, Kentucky law firm

Director since 1993.

Richard T. Surke

Former Chief Executive Officer

and Governor

Phoenix Govores

A National Hockey League team

Director since 1977.

Stephen J. Hemsley

President and

Chief Operating Officer

UnitedHealth Group

Director since 2000.

James A. Johnson

Vice Chairman

Perseus, LLC

A private merchant banking

and investment firm Director since 1993.

Thomas H. Kean

President

Drew University

Director since 1993.

Douglas, W. Leatherdale

Former Chairman and

Chief Executive Officer

The St. Paul Companies, Inc.

Insurance and related services Director since 1983.

William W. McGuire, MD

Chairman and

Chief Executive Officer

UnitedHealth Group

Director since 1989.

Mary G. Mundinger, RN, DrPH.

Dean and Centennial Professor in Health Policy, School of Nursing, and

Associate Dean. Faculty of Medicine

Columbia University

Director since 1997.

Robert L. Ryan

Senior Vice President and

Chief Financial Officer

Meditionic, Inc.

A medical technology company,

Dîrector jînce 1996.

Donna E. Shalala, PhD

President

University of Miami

Director since 2001.

William G. Spears

Senior Principal

Spears Grisanti & Brown LLC

A New York City-based investment

counseling and management firm

Director since 1991.

Gall R. Wilensky, PhD

Senior Fellow

Project HOPE

An international health foundation

Director since 1993.

**Audit Committee** 

William C. Ballard, Jr.

Richard T. Burke

Douglas W. Leatherdale

Robert L. Ryan

Compensation and Human

Resources Committee

James A. Johnson

Mary O. Mundinger William G. Spears

Compliance and Government

Affairs Committee

Thomas H. Kean

Donna E. Shalala

Gail R. Wilensky

Executive Committee

William C, Ballard, Jr.

Douglas W. Leatherdale

William W. McGuire William G. Spears

Nominating Committee

William C. Ballard, Jr.

Thomas H. Kean

Douglas W. Leatherdale

William G. Spears

### Financial Performance At A Glance

GROWTH & PROFITS CONSOLIDATED (In millims, except per share date)	2003	2002	2001
Revenues	\$ 28,823	\$ 25,020	\$ 23,454
Earnings From Operations Operating Margin Return on Net Assets	\$ 2,935 10.2% 48.7%	\$ 2,186 8.7% 37.5%	\$ 1,566 6.7% 30.7%
Net Earnings Net Margin	\$ 1,825 <sub>_</sub> 6.3% <sub>_</sub>	\$ 1,352 5.4%	\$ 913 3.9%
Diluted Net Earnings per Common Share	\$ 2.96	\$ 2.13	\$ 1.40
GROWTH & PROFITS — BY SEGMENT (to multipole)	2003	<b>2002</b>	2001
HEALTH CARE SERVICES Revenues Revenues Earnings From Operations Operating Margin Return on Net Assets UMPRISE Revenues Earnings From Operations Operating Margin Return off Net Assets SPECIALIZED CARE SERVICES Revenues Earnings From Operations Operating Margin Return on Net Assets INGENIX Revenues Earnings From Operations Operating Margin Return on Net Assets Operating Margin Return of Net Assets	\$ 24,807 \$ 1,865 7.5% 40.5% \$ 3,107 \$ 619 19.6% 55.2% \$ 1,878 \$ 385 20.5% 59.1% \$ 75 13.1% 9.7%	\$ 21,552 \$ 1,328 6.2% 35.5% \$ 2.725 \$ 517 19.0% 48.7% \$ 1,509 \$ 286 19.0% 50.7% \$ 11.2% 7.6%	\$.20,403 \$.936 4.6% 29.0% \$.2474 \$.382 15.4% 38.0% \$.1,254 \$.214 17.1% 59.1% \$.447 \$.48 10.7% 7.5%
CAPITAL ITEMS (In millions, except per share data)  Cash Flows From Operating Activities	2003	2002	2001 \$ 1,844
Capited Expenditures	\$ 352	\$ 419	<b>\$ 42</b> 5
Consideration Paid or Issued for Acquisitions	\$ 590	\$ 869	\$ 255
Debt to Total Capital Ratio	27.8%	28.5%	28.9%
Return on Shareholders' Equity	39.0%	55.0%	24.5%
Your End Market Capitalization	\$33,896	\$ 25,005	\$ 21,841
Year End Common Share Price	\$ 58.18	\$ 41.75	\$ 35.39

### Investor Information

### Market Price of Common Stock

The following table shows the range of high and low sales prices for the company's stock as reported on the New York Stock Exchange for the calendar periods shown through February 27, 2004.

These prices do not include commissions or fees associated with purchasing or selling this security.

	High	Low
2004		
First Quarter		
Through February 27, 2004	\$ 62.30	\$ 55,45
2003		
First Quarter	\$ 46.35	\$ 39.20
Second Quarter	\$ 52.67	\$ 44.10
Third Quarter	\$ 56.25	\$ 47.25
Fourth Quarter	\$ 58,67	\$ 47,58
2002		
First Quarter	\$ 38.40	\$ 33.93
Second Quarter	\$ 48.95	\$ 37.57
Third Quarter	48.15	\$ 37.57 \$ 40.74
Fourth Quarter	\$ 50.50	\$ 37.52
"	 Section 2	

As of February 27, 2004, the company had:13;361 shareholders of record.

### **Account Questions**

Our transfer agent, Wells Fargo, can help you with a variety of shareholder-related services, including:

Change of address
Lost stock certificates
Transfer of stock to another person
Additional administrative services.

You can call our transfer agent toll free at: (800) 468-9716 or locally at (651) 450-4064.

### You can write them at:

Wells Fargo Shareowner Services P.O. Box 64854 Saint Paul, Minnesota 55164-0854

Or you can e-mail our transfer agent at: stocktransfer@wellsfargo.com

### Investor Relations

You can contact UnitedHealth Group Investor Relations to order, without charge, financial documents, such as the annual report and Form 10-K. You can write to us at:

Investor Relations, MN008-T930 UnitedHealth Group P.O. Box 1459 Minneapolis, Minnesota 55440-1459

### **Annual Meeting**

We invite UnitedHealth Group shareholders to attend our annual meeting, which will be held on Wednesday, May 12, 2004, at 10:00 a.m. CDT, at UnitedHealth Group Center, 9900 Bren Road East, Minnetonka, Minnesota.

### **Dividend Policy**

UnitedHealth Group's board of directors established the company's dividend policy in August 1990. The policy requires the board to review the company's audited financial statements following the end of each fiscal year and decide whether it is advisable to declare a dividend on the outstanding shares of common stock.

Shareholders of record on April 1, 2003, received an annual dividend for 2003 of \$0,015 per share. On February 2, 2004, the board of directors approved an annual dividend for 2004 of \$0.05 per share. The dividend will be paid on April 16, 2004, to shareholders of record at the close of business on April 1, 2004.

### Stock Listing

The company's common stock is traded on the New York Stock Exchange under the symbol UNH:

### Information Online

You can view our annual report and obtain more information about UnitedHealth Group and its businesses via the Internet at:

www.unitedbealthgroup.com

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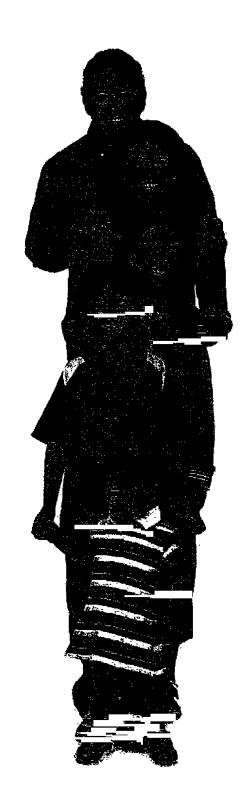


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2004 Annual Report By conventional standards of measurement, UnitedHealth Group achieved strong performance across its diverse set of businesses in 2004. But as important as financial results are, they alone do not fully convey the tangible advances in our efforts to promote optimal health for all people.

Perhaps most gratifying is the measurable progress UnitedHealth Group continues to make toward addressing key challenges in health care. This is being realized by marshaling unparalleled capabilities in organizing resources, developing and applying technology, and using data to enhance knowledge across a diverse set of markets. The strategic focus of our company, which has remained unchanged for more than a decade and a half, centers on making the health care system — a system rich in capability, but consistently inefficient, variable in its results and challenging in its accessibility — work better.

Over these years, we have held fast to our key beliefs in offering choice and access, simplifying the health care experience, promoting safe and evidence-based medicine, facilitating care for people and, ultimately, improving affordability. These core principles and elements — focused on the needs of the marketplace rather than a particular product or capability — have served as our impetus to pursue innovations and opportunities across the full spectrum of the health and well-being arena. In so doing, we have had a meaningful impact on advancing health and well-being for the constituencies we serve.

The shared commitment of our employees, regardless of individual responsibilities or involvement in a particular business unit, is that in everything we do we must ultimately address the basic needs of our customers. More than ever, we are committed to making the needs of customers our priority, and to further act on what we have long believed.

UnitedHealth Group
has been — and
will continue to be —
an important innovator and
advocate for addressing
the issues of quality,
affordability, accessibility
and usability in health care.

While these objectives have been present in the past, we have refined our focus around four imperatives. Our individual and collective activities will be relentlessly directed at achieving:

- > Higher quality and better health outcomes,
- > Affordability of services,
- > Accessibility to care, and
- > Ease of use of benefits and services.

By addressing these fundamental needs, and thereby excluding all other distractions and activities that do not align with these imperatives, we effectively dedicate our resources and capabilities to the needs of our customers and, in turn, help create a more efficient, progressive, fair and compassionate health care system for everyone.

Our efforts to date have been fruitful. We have succeeded in meeting the needs of an increasingly diverse set of clients and market segments, and this has allowed us to provide meaningful advances for our shareholders as well:

- > Strong revenue growth has been driven by an expanding customer base, which has accessed both new and established services.
- > Health care cost trends have been contained through an array of services and programs designed to reduce inappropriate variation in care, increase the use of necessary services and more effectively purchase services critical to those in need.
- > Operating margins have continued to expand as gains from the practical application of technology have increased service quality and efficiency, and simultaneously lowered costs.
- > Strong cash flows from operations have been generated by attention to best business practices. We have effectively utilized these strong cash resources to support operations, fund research and development activities, invest in innovations for the future, and support worthy social activities documented by the company's strong return on equity, business expansion and continuing growth.



These results aside, it remains our belief that health care must work better, should be easier and simpler to use, and must be accessible for all people. As a society and a nation, we have not worked hard enough on this agenda. Our aspirations

and actions are too modest, and our pace lacks appropriate urgency given the costs in both human suffering and the national economic resources we currently expend.

We believe the efforts of UnitedHealth Group and others are important to meeting the broad challenges related to health and well-being that affect our society, as well as those beyond our domestic borders. Certainly, our company alone cannot solve the significant issues surrounding health care for all citizens. That will require mutual participation by all parties involved in health care, particularly physicians and other providers of care, employers, government, intermediaries and consumers. While we urge these collective efforts to accelerate, we will move ahead with urgency. UnitedHealth Group has been — and will continue to be — an important innovator and advocate for addressing the issues of quality, affordability, accessibility and usability in health care.

Given our position and the potential before us, we are optimistic about the future. We have the tools, the capacity, the desire and, above all, the commitment of our people. Innovations, services and products from UnitedHealth Group have provided meaningful value to people across a broad set of health-related needs. We intend to continue our tradition of challenging the past in pursuit of a better future and remain confident that the beliefs and strategies we have long pursued will continue to yield positive results.

Sincerely,

William W. M. Gura

William W. McGuire, M.D.

Chairman and Chief Executive Officer

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The number of people who, through UnitedHealth Group, have access to nationally recognized Centers of Excellence in the areas of transplantation, congenital heart disease, kidney dialysis, reproductive services and complex cancer care.

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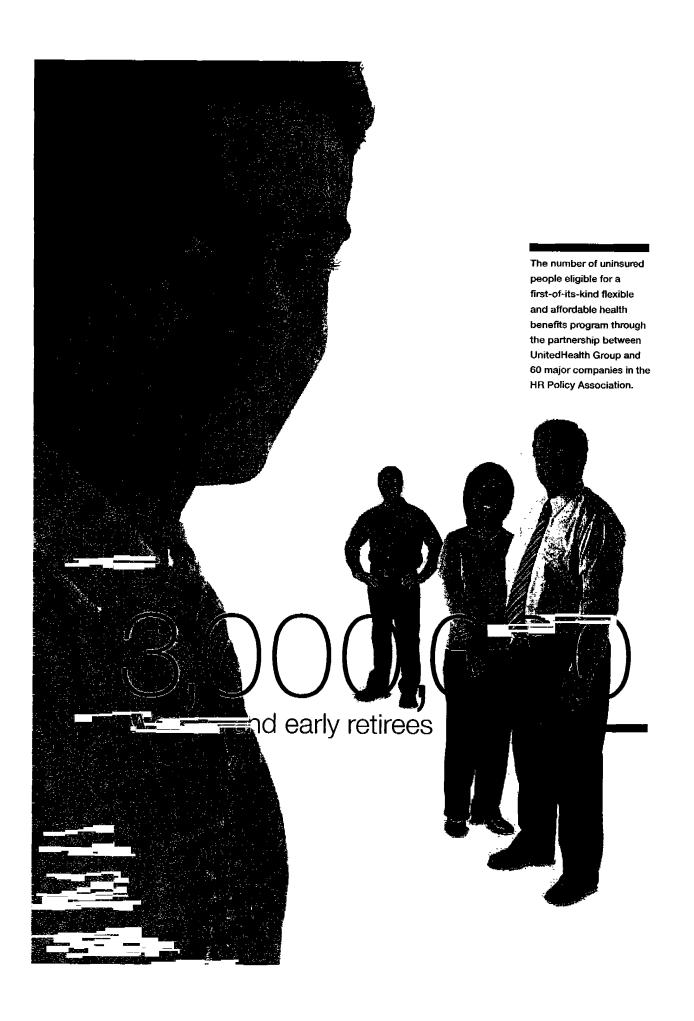
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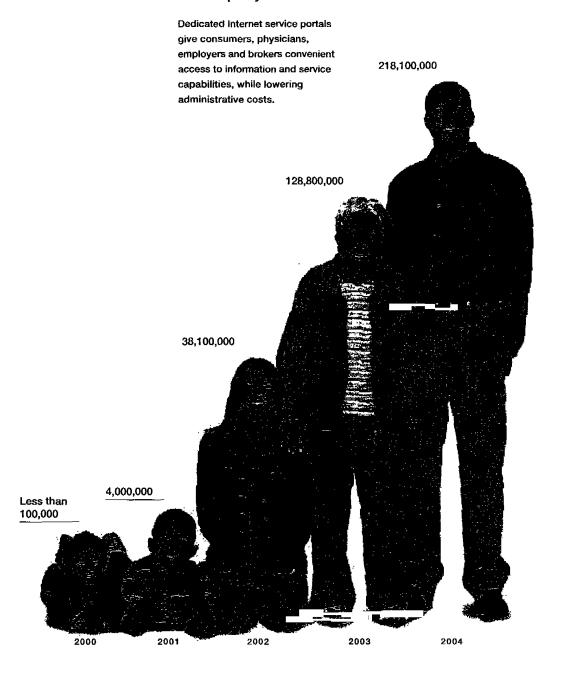
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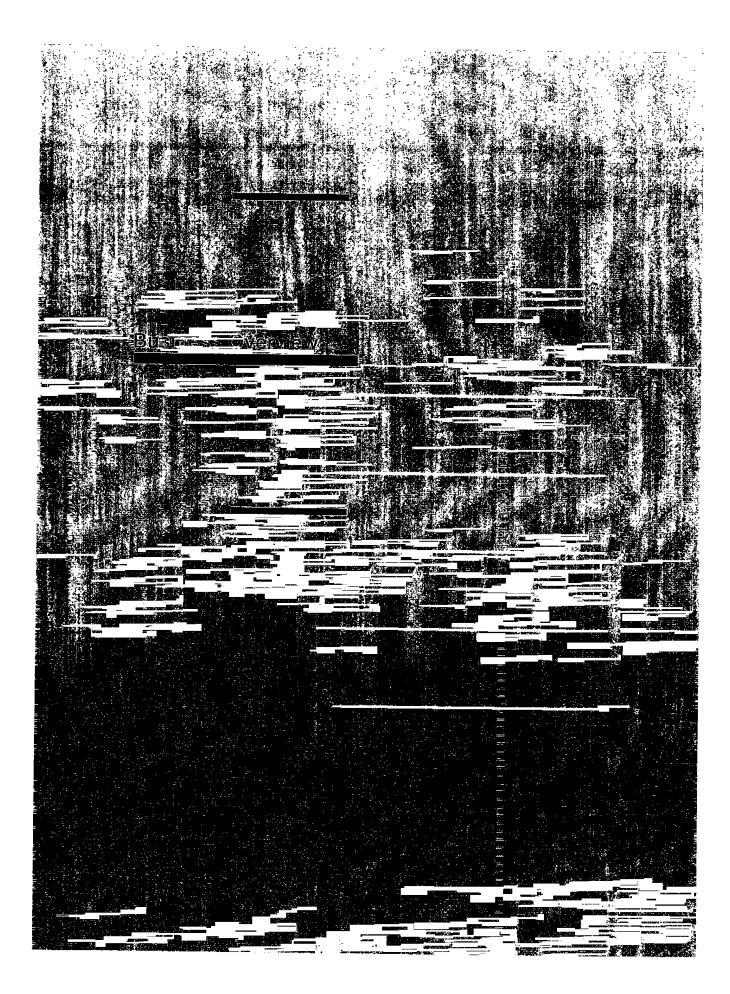
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### Annualized transactions — Internet and electronic channels 2005 projected





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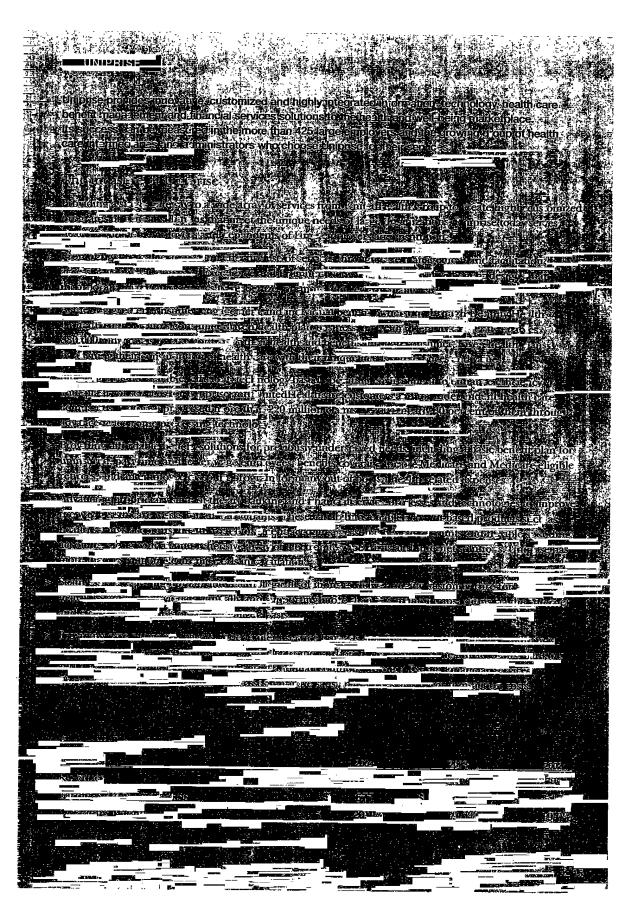
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### Financial Review

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	For the Year Ended December 31,				
(in millions, except per share data)	2004'	2003	2002	2001	2000
CONSOLIDATED OPERATING RESULTS					
Revenues	\$ 37,218	\$ 28,823	\$ 25,020	\$23,454	\$21,122
Earnings From Operations	\$ 4,101	\$ 2,935	\$ 2,186	\$ 1,566	\$ 1,200
Net Earnings	\$ 2,587	\$ 1,825	\$ 1,352	\$ 913	<b>\$</b> 736
Return on Shareholders' Equity	31.4 %	39.0 %	33.0 %	24.5 %	19.8%
Basic Net Earnings					
per Common Share	\$ 4.13	\$ 3.10	\$ 2.23	\$ 1.46	\$ 1.14
Diluted Net Earnings					
per Common Share	\$ 3.94	\$ 2.96	\$ 2.13	\$ 1.40	\$ 1.09
- <u>Divid</u> ends per Share	\$ 0.03	\$ 0.015	\$ 0.015	\$ 0.015	\$ 0.008
CONSOLIDATED CASH FLOWS FROM (US	ED FOR)				
Operating Activities	\$ 4,135	\$ 3,003	\$ 2,423	<b>\$ 1,844</b>	\$ 1,521
Investing Activities	\$ (1,644)	\$ (745)	\$ (1,391)	\$ (1,138)	\$ (968)
Financing Activities	\$ (762)	\$ (1,126)	\$ (1,442)	\$ (585)	\$ (739)
CONSOLIDATED FINANCIAL CONDITION (As of December 31)					
Cash and Investments	\$ 12,253	\$ 9,477	\$ 6,329	\$ 5,698	\$ 5,053
Total Assets	\$ 27,879	\$ 17,634	\$ 14,164	\$12,486	\$ 11,053
Debt	\$ 4,023	\$ 1,979	\$ 1,761	\$ 1,584	\$ 1,209
Shareholders' Equity	\$ 10,717	<b>\$</b> 5,128	\$ 4,428	\$ 3,891	\$ 3,688
Debt-to-Total-Capital Ratio	27.3 %	27.8%	28.5 %	28.9~%	24.7%

Financial Highlights and Results of Operations should be read together with the accompanying Consolidated Financial Statements and Notes. 1 UnitedHealth Group acquired Oxford Health Plans, Inc. (Oxford) in July 2004 for total consideration of approximately \$5 0 billion and acquired Mid Adantic Medical Services, Inc. (MAMSI) in February 2004 for total consideration of approximately \$2.7 billion. These acquisitions affect the comparability of 2004 financial information to prior fiscal years. The results of operations and financial condition of Oxford and MAMSI have been included in UnitedHealth Group's consolidated financial statements since the respective acquisition dates. See Note 3 to the consolidated financial statements for a detailed discussion of these acquisitions.

### **Business Overview**

UnitedHealth Group is a diversified health and well-being company, serving approximately 55 million Americans. Our focus is on improving the American health care system by simplifying the administrative components of health care delivery; promoting evidence-based medicine as the standard for care; and providing relevant, actionable data that physicians, health care providers, consumers, employers and other participants in health care can use to make better, more informed decisions.

Through our diversified family of businesses, we leverage core competencies in advanced technologybased transactional capabilities; health care data, knowledge and informatics; and health care resource organization and care facilitation to make health care work better. We provide individuals with access to quality, cost-effective health care services and resources. We promote the delivery of care, consistent with the best available evidence for effective health care. We provide employers with superb value, service and support, and we deliver value to our shareholders by executing a business strategy founded upon a commitment to balanced growth, profitability and capital discipline.

### 2004 Financial Performance Highlights

UnitedHealth Group had an excellent year in 2004. The company achieved diversified growth across its business segments and generated net earnings of \$2.6 billion and operating cash flows of \$4.1 billion, representing increases of 42% and 38%, respectively, over 2003. Other financial performance highlights include:

- > Diluted net earnings per common share of \$3.94, representing an increase of 33% over 2003.
- > Revenues of \$37.2 billion, a 29% increase over 2003. Excluding the impact of acquisitions, revenues increased 8% over 2003.
- > Operating earnings of more than \$4.1 billion, up 40% over 2003.
- > Consolidated operating margin of 11.0%, up from 10.2% in 2003, driven primarily by improved margins on risk-based products, revenue mix changes and operational and productivity improvements.
- > Return on shareholders' equity of 31.4%.

UnitedHealth Group acquired Oxford Health Plans, Inc. (Oxford) in July 2004 for total consideration of approximately \$5.0 billion and acquired Mid Atlantic Medical Services, Inc. (MAMSI) in February 2004 for total consideration of approximately \$2.7 billion. The results of operations and financial condition of Oxford and MAMSI have been included in UnitedHealth Group's Consolidated Financial Statements since the respective acquisition dates.

### CONSOLIDATED FINANCIAL RESULTS

### Revenues

Revenues are comprised of premium revenues from risk-based products; service revenues, which primarily include fees for management, administrative and consulting services; and investment and other income.

Premium revenues are primarily derived from risk-based health insurance arrangements in which the premium is fixed, typically for a one-year period, and we assume the economic risk of funding our customers' health care services and related administrative costs. Service revenues consist primarily of fees derived from services performed for customers that self-insure the medical costs of their employees and their dependents. For both premium risk-based and fee-based customer arrangements, we provide coordination and facilitation of medical services; transaction processing; customer, consumer and care provider services; and access to contracted networks of physicians, hospitals and other health care professionals.

Consolidated revenues increased by \$8.4 billion, or 29%, in 2004 to \$37.2 billion, primarily as a result of revenues from businesses acquired since the beginning of 2003. Excluding the impact of these acquisitions, consolidated revenues increased by approximately 8% in 2004 as a result of rate increases on premium-based and fee-based services and growth across business segments. Following is a discussion of 2004 consolidated revenue trends for each of our three revenue components.

Premium Revenues Consolidated premium revenues in 2004 totaled \$33.5 billion, an increase of \$8.0 billion, or 32%, over 2003. Excluding the impact of acquisitions, premium revenues increased by approximately 8% in 2004. This increase was due in part to average net premium rate increases of approximately 9% on UnitedHealthcare's renewing commercial risk-based business, partially offset by a slight decrease in the number of individuals served by UnitedHealthcare's commercial risk-based products and changes in the commercial product benefit and customer mix. In addition, Ovations' premium revenues increased largely due to increases in the number of individuals it serves through Medicare Advantage products and changes in product mix related to Medicare supplement products, as well as rate increases on all of these products. Premium revenues from AmeriChoice's Medicaid programs and Specialized Care Services' businesses also increased due to advances in the number of individuals served by those businesses.

Service Revenues Service revenues in 2004 totaled \$3.3 billion, an increase of \$217 million, or 7%, over 2003. The increase in service revenues was driven primarily by aggregate growth of 4% in the number of individuals served by Uniprise and UnitedHealthcare under fee-based arrangements during 2004, excluding the impact of acquisitions, as well as annual rate increases. In addition, Ingenix service revenues increased due to new business growth in the health information and clinical research businesses.

Investment and Other Income Investment and other income totaled \$388 million, representing an increase of \$131 million over 2003. Interest income increased by \$134 million in 2004, principally due to the impact of increased levels of cash and fixed-income investments during the year from the acquisitions of Oxford, MAMSI and Golden Rule Financial Corporation (Golden Rule), which was acquired in November 2003. Net capital gains on sales of investments were \$19 million in 2004, a decrease of \$3 million from 2003.

### **Medical Costs**

The combination of pricing, benefit designs, consumer health care utilization and comprehensive care facilitation efforts is reflected in the medical care ratio (medical costs as a percentage of premium revenues).

The consolidated medical care ratio decreased from 81.4% in 2003 to 80.6% in 2004. Excluding the AARP business; the medical care ratio decreased 50 basis points from 80.0% in 2003 to 79.5% in 2004. The medical care ratio decrease resulted primarily from net premium rate increases that slightly exceeded overall medical benefit cost increases and changes in product, business and customer mix.

Each period, our operating results include the effects of revisions in medical cost estimates related to all prior periods. Changes in medical cost estimates related to prior fiscal years that are identified in the current year are included in total medical costs reported for the current fiscal year. Medical costs for 2004 include approximately \$210 million of favorable medical cost development related to prior fiscal years. Medical costs for 2003 include approximately \$150 million of favorable medical cost development related to prior fiscal years.

On an absolute dollar basis, 2004 medical costs increased \$6.3 billion, or 30%, over 2003 principally due to the impact of the acquisitions of Oxford, MAMSI and Golden Rule. Excluding the impact of acquisitions, medical costs increased by approximately 8% driven primarily by medical cost inflation and a moderate increase in health care consumption.

### **Operating Costs**

The operating cost ratio (operating costs as a percentage of total revenues) for 2004 was 15.4%, down from 16.9% in 2003. This decrease was driven by revenue mix changes, with premium revenues growing at a faster rate than service revenues largely due to recent acquisitions. The existence of premium revenues within our risk-based products cause them to have lower operating cost ratios than fee-based products, which have no premium revenues. Additionally, the decrease in the operating cost ratio reflects productivity gains from technology deployment and other cost management initiatives.

On an absolute dollar basis, operating costs for 2004 increased \$868 million, or 18%, over 2003 primarily due to the acquisitions of Oxford, MAMSI and Golden Rule. Excluding the impact of acquisitions, operating costs increased by approximately 3%. This increase was driven by a more than 3% increase in the total number of individuals served by Health Care Services and Uniprise in 2004, excluding the impact of acquisitions, and general operating cost inflation, partially offset by productivity gains from technology deployment and other cost management initiatives.

### Depreciation and Amortization

Depreciation and amortization in 2004 was \$374 million, an increase of \$75 million, or 25%, over 2003. Approximately \$42 million of this increase is related to intangible assets acquired in business acquisitions in 2004. The remaining increase of \$33 million is due to additional depreciation and amortization from higher levels of computer equipment and capitalized software as a result of technology enhancements, business growth and businesses acquired since the beginning of 2003.

<sup>&</sup>lt;sup>1</sup>Management believes disclosure of the medical care ratio excluding the AARP business is meaningful since underwriting gains or losses related to the AARP business accrue to the overall benefit of the AARP policyholders through a rate stabilization fund (RSF) Although the company is at risk for underwriting losses to the extent cumulative net losses exceed the balance in the RSF, we have not been required to fund any underwriting deficits to date, and management believes the RSF balance is sufficient to cover potential future underwriting or other risks associated with the contract during the foreseeable future.

### Income Taxes

Our effective income tax rate was 34.9% in 2004, compared to 35.7% in 2003. The decrease was driven mainly by favorable settlements of prior year income tax returns.

### **BUSINESS SEGMENTS**

The following summarizes the operating results of our business segments for the years ended December 31 (in millions):

REVENUES			Percent
	2004	2003	Change
Health Care Services	\$ 32,673	\$ 24,807	32%
Uniprise	3,365	3,107	8%
Specialized Care Services	2,295	1,878	22%
Ingenix	670	<b>574</b>	17%
Corporate and Eliminations	(1,785)	(1,543)	nm
Consolidated Revenues	\$37,218	\$ 28,823	29%
EARNINGS FROM OPERATIONS			Percent
	2004	2003	Change
Health Care Services	\$ 2,810	<b>\$</b> 1,865	51%
Uniprise	677	610	11%
Specialized Care Services	485	385	26%
Ingenix	129	75	72%
Consolidated Earning From Operations	\$ 4,101	\$ 2,935	40%

nm — not meaningful

### Health Care Services

The Health Care Services segment consists of the UnitedHealthcare, Ovations and AmeriChoice businesses. UnitedHealthcare coordinates network-based health and well-being services on behalf of multistate, mid-sized and local employers and consumers. Ovations delivers health and well-being services to Americans over the age of 50, including the administration of supplemental health insurance coverage on behalf of AARP. AmeriChoice facilitates and manages health care services for state-sponsored Medicaid programs and their beneficiaries.

Health Care Services had revenues of \$32.7 billion in 2004, representing an increase of \$7.9 billion, or 32%, over 2003, driven primarily by acquisitions since the beginning of 2003. Excluding the impact of acquisitions, Health Care Services revenues increased by approximately \$1.9 billion, or 8%, over 2003. UnitedHealthcare accounted for approximately \$850 million of this increase, driven by average premium rate increases of approximately 9% on renewing commercial risk-based business and growth in the number of individuals served by fee-based products, partially offset by a slight decrease in the number of individuals served by UnitedHealthcare's commercial risk-based products. Ovations contributed approximately \$770 million to the revenue advance over 2003 driven by growth in the number of individuals served by Ovations' Medicare Advantage products and changes in product mix related to Medicare supplement products it provides to AARP members, as well as rate increases on all of these products. The remaining increase in Health Care Services revenues is attributable to growth in the number of individuals served by AmeriChoice's Medicaid programs and Medicaid premium rate increases.

Health Care Services earnings from operations in 2004 were \$2.8 billion, representing an increase of \$945 million, or 51%, over 2003. This increase primarily resulted from Ovations' and UnitedHealthcare's revenue growth, improved gross margins on UnitedHealthcare's commercial risk-based products and the impact of the acquisitions of Oxford, MAMSI and Golden Rule. UnitedHealthcare's commercial medical care ratio improved to 79.0% in 2004 from 80.0% in 2003. The decrease in the commercial medical care ratio was primarily driven by net premium rate increases that slightly exceeded overall medical benefit cost increases and changes in business and customer mix. Health Care Services' 2004 operating margin was 8.6%, an increase of 110 basis points over 2003. This increase was principally driven by a combination of the improved commercial medical care ratio and changes in business and customer mix.

The following table summarizes the number of individuals served by Health Care Services, by major market segment and funding arrangement, as of December 311:

(in thousands)	2004	2003
Commercial		
Risk-Based	7,655	5,400
Fec-Based	3,305	2,895
Total Commercial	10,960	8,295
Medicare	330	230
Medicaid	1,260	1,105
Total Health Care Services	12,550	9,630

<sup>&</sup>lt;sup>1</sup> Excludes individuals served by Ovations' Medicare supplement products provided to AARP members.

The number of individuals served by UnitedHealthcare's commercial business as of December 31, 2004, increased by nearly 2.7 million, or 32%, over the prior year. Excluding the 2004 acquisitions of Oxford, MAMSI and a smaller regional health plan, the number of individuals served by UnitedHealthcare's commercial business increased by 245,000. This included an increase of 285,000 in the number of individuals served with fee-based products, driven by new customer relationships and existing customers converting from risk-based products to fee-based products, partially offset by a decrease of 40,000 in the number of individuals served with risk-based products resulting primarily from customers converting to self-funded, fee-based arrangements and a competitive commercial risk-based pricing environment.

Excluding the impact of the Oxford acquisition, the number of individuals served by Ovations' Medicare Advantage products increased by 30,000, or 13%, from 2003. AmeriChoice's Medicaid enrollment increased by 155,000, or 14%, due to organic growth in the number of individuals served and the acquisition of a Medicaid health plan in Michigan in February 2004, resulting in the addition of approximately 95,000 individuals served.

### Uniprise

Uniprise provides network-based health and well-being services, business-to-business transaction processing services, consumer connectivity and technology support services to large employers and health plans, and provides health-related consumer and financial transaction products and services. Uniprise revenues in 2004 were \$3.4 billion, representing an increase of 8% over 2003. This increase was driven primarily by growth of 4% in the number of individuals served by Uniprise, excluding the impact of the acquisition of Definity Health Corporation (Definity) in December 2004, and annual service fee rate increases for self-insured customers. Uniprise served 9.9 million individuals and 9.1 million individuals as of December 31, 2004 and 2003, respectively.

Uniprise earnings from operations in 2004 were \$677 million, representing an increase of 11% over 2003. Operating margin for 2004 improved to 20.1% from 19.6% in 2003. Uniprise has expanded its operating margin through operating cost efficiencies derived from process improvements, technology deployment and cost management initiatives that have reduced labor and occupancy costs in its transaction processing and customer service, billing and enrollment functions. Additionally, Uniprise's infrastructure can be scaled efficiently, allowing its business to grow revenues at a proportionately higher rate than the associated growth in operating expenses.

### Specialized Care Services

Specialized Care Services is a portfolio of specialty health and wellness companies, each serving a specialized market need with a unique offering of benefits, networks, services and resources. Specialized Care Services revenues during 2004 of \$2.3 billion increased by \$417 million, or 22%, over 2003. This increase was principally driven by an increase in the number of individuals served by United Behavioral Health, its behavioral health benefits business, Dental Benefit Providers, its dental services business, and Spectera, its vision care benefits business; rate increases related to these businesses; and incremental revenues related to businesses acquired since the beginning of 2003 of approximately \$100 million.

Earnings from operations in 2004 of \$485 million increased \$100 million, or 26%, over 2003. Specialized Care Services' operating margin increased to 21.1% in 2004, up from 20.5% in 2003. This increase was driven primarily by operational and productivity improvements within Specialized Care Services' businesses and consolidation of the production and service operation infrastructure to enhance productivity and efficiency and to improve the quality and consistency of service, partially offset by a business mix shift toward higher revenue, lower margin products.

### Ingenix

Ingenix is a leader in the field of health care data analysis and application, serving pharmaceutical companies, health insurers and other payers, physicians and other health care providers, large employers, and governments. Ingenix revenues in 2004 of \$670 million increased by \$96 million, or 17%, over 2003. This was driven primarily by new business growth in the health information and clinical research businesses.

Earnings from operations in 2004 were \$129 million, up \$54 million, or 72%, from 2003. Operating margin was 19.3% in 2004, up from 13.1% in 2003. The increase in earnings from operations and operating margin was primarily due to growth and improving gross margins in the health information and clinical research businesses.

### CONSOLIDATED FINANCIAL RESULTS

### Revenues

Consolidated revenues increased by \$3.8 billion, or 15%, in 2003 to \$28.8 billion. Consolidated revenues increased by approximately 11% as a result of rate increases on premium-based and fee-based services and growth across business segments, and 4% as a result of revenues from businesses acquired since the beginning of 2002. Following is a discussion of 2003 consolidated revenue trends for each of our three revenue components.

Premium Revenues Consolidated premium revenues in 2003 totaled \$25.4 billion, an increase of \$3.5 billion, or 16%, over 2002. UnitedHealthcare premium revenues increased by \$1.8 billion, driven primarily by average premium rate increases of 12% to 13% on renewing commercial risk-based business. Premium revenues from Medicaid programs also increased by approximately \$1.0 billion over 2002. Approximately 70% of this increase resulted from the acquisition of AmeriChoice on September 30, 2002, with the remaining 30% driven by growth in the number of individuals served by our AmeriChoice Medicaid programs since the acquisition date. The remaining premium revenue growth in 2003 was primarily driven by growth in the number of individuals served by Ovations' Medicare supplement products provided to AARP members and its Evercare business, along with growth in several of Specialized Care Services' businesses.

Service Revenues Service revenues in 2003 totaled \$3.1 billion, an increase of \$224 million, or 8%, over 2002. The increase in service revenues was driven primarily by aggregate growth of 7% in the number of individuals served by Uniprise and UnitedHealthcare under fee-based arrangements during 2003.

Investment and Other Income Investment and other income totaled \$257 million, representing an increase of \$37 million over 2002, due primarily to increased capital gains on sales of investments. Net capital gains on sales of investments were \$22 million in 2003, compared with net capital losses of \$18 million in 2002. Interest income decreased by \$3 million in 2003, driven by lower yields on investments, partially offset by the impact of increased levels of cash and fixed-income investments.

### Medical Costs

The consolidated medical care ratio decreased from 83.0% in 2002 to 81.4% in 2003. Excluding the AARP business, the medical care ratio decreased 140 basis points from 81.4% in 2002 to 80.0% in 2003. The medical care ratio decrease resulted primarily from net premium rate increases that exceeded overall medical benefit cost increases and changes in product, business and customer mix.

Each period, our operating results include the effects of revisions in medical cost estimates related to all prior periods. Changes in medical cost estimates related to prior fiscal years that are identified in the current year are included in total medical costs reported for the current fiscal year. Medical costs for 2003 include approximately \$150 million of favorable medical cost development related to prior fiscal years. Medical costs for 2002 include approximately \$70 million of favorable medical cost development related to prior fiscal years.

On an absolute dollar basis, 2003 medical costs increased \$2.5 billion, or 14%, over 2002. The increase was driven primarily by a rise in medical costs of approximately 10% to 11% due to medical cost inflation and a moderate increase in health care consumption, and incremental medical costs related to businesses acquired since the beginning of 2002.

### **Operating Costs**

The operating cost ratio for 2003 was 16.9%, down from 17.5% in 2002. This decrease was driven primarily by revenue mix changes, with greater growth from premium revenues than from service revenues, and productivity gains from technology deployment and other cost management initiatives. Our premium-based products have lower operating cost ratios than our fee-based products. The impact of operating cost efficiencies in 2003 was partially offset by the continued incremental costs associated with the development, deployment, adoption and maintenance of new technology releases.

On an absolute dollar basis, operating costs for 2003 increased \$488 million, or 11%, over 2002. This increase was driven by a 6% increase in total individuals served by Health Care Services and Uniprise during 2003, increases in broker commissions and premium taxes due to increased revenues, general operating cost inflation, and additional operating costs associated with change initiatives and acquired businesses.

### Depreciation and Amortization

Depreciation and amortization in 2003 was \$299 million, an increase of \$44 million over 2002. This increase was due to additional depreciation and amortization from higher levels of computer equipment and capitalized software as a result of technology enhancements, business growth and businesses acquired since the beginning of 2002.

### Income Taxes

Our effective income tax rate was 35.7% in 2003, compared to 35.5% in 2002. The change from 2002 was due to changes in business and income mix among states with differing income tax rates.

### **BUSINESS SEGMENTS**

The following summarizes the operating results of our business segments for the years ended December 31 (in millions):

REVENUES			Percent
	2003	2002	Change
Health Care Services	\$ 24,807	\$ 21,552	15%
Uniprise	3,107	2,725	14%
Specialized Care Services	1,878	1,509	24%
Ingenix	574	491	17%
Corporate and Eliminations	(1,543)	(1,257)	$\mathbf{n}\mathbf{m}$
Consolidated Revenues	\$ 28,823	\$ 25,020	15%
EARNINGS FROM OPERATIONS			Percent
	2003	2002	Change
Health Care Services	\$ 1,865	\$ 1,328	40%
Uniprise	610	517	18%
Specialized Care Services	385	286	35%
Ingenix	75	55	36%
Consolidated Earnings From Operations	\$ 2,935	\$ 2,186	34%
nm not meaningful			

### Health Care Services

Health Care Services had revenues of \$24.8 billion in 2003, representing an increase of \$3.3 billion, or 15%, over 2002. The majority of the increase resulted from an increase of \$1.9 billion in UnitedHealthcare revenues, an increase of 14% over 2002. The increase in UnitedHealthcare revenues was driven by average premium rate increases of approximately 12% to 13% on renewing commercial risk-based business and 8% growth in the number of individuals served by fee-based products during 2003. Revenues from Medicaid programs in 2003 increased by \$1.0 billion over 2002. Approximately 70% of this increase resulted from the acquisition of AmeriChoice on September 30, 2002, with the remaining 30% driven by growth in the number of individuals served by AmeriChoice Medicaid programs since the acquisition date. Ovations revenues increased by \$319 million, or 5%, primarily due to increases in the number of individuals served by both its Medicare supplement products provided to AARP members and by its Evercare business.

Health Care Services earnings from operations in 2003 were nearly \$1.9 billion, representing an increase of \$537 million, or 40%, over 2002. This increase primarily resulted from revenue growth and improved gross margins on UnitedHealthcare's risk-based products, growth in the number of individuals served by UnitedHealthcare's fee-based products, and the acquisition of AmeriChoice on September 30, 2002. UnitedHealthcare's commercial medical care ratio improved to 80.0% in 2003 from 81.8% in 2002. The decrease in the commercial medical care ratio was driven primarily by the decrease in net premium rate increases that exceeded overall medical benefit cost increases and changes in business and customer mix. Health Care Services' 2003 operating margin was 7.5%, an increase of 130 basis points over 2002. This increase was driven by a combination of improved medical care ratios and a shift in commercial product mix from risk-based products to higher-margin, fee-based products.

The following table summarizes the number of individuals served by Health Care Services, by major market segment and funding arrangement, as of December 311:

(in thousands)	2003	2002
Commercial		
Risk-Based	5,400	5,070
Fce-Based	2,895	2,715
Total Commercial	8,295	7,785
Medicare	230	225
Medicaid	1,105	1,030
Total Health Care Services	9,630	9,040

<sup>1</sup> Excludes individuals served by Ovations' Medicare supplement products provided to AARP members.

The number of individuals served by UnitedHealthcare's commercial business as of December 31, 2003, increased by 510,000, or 7%, over the prior year. This included an increase of 180,000, or 7%, in the number of individuals served with fee-based products, driven by new customer relationships and existing customers converting from risk-based products to fee-based products. In addition, the number of individuals served by risk-based products increased by 330,000. This increase was driven by the acquisition of Golden Rule in November 2003, which resulted in the addition of 430,000 individuals served, partially offset by customers converting to self-funded, fee-based arrangements and UnitedHealthcare's targeted withdrawal of risk-based offerings from unprofitable arrangements with customers using multiple benefit carriers.

Ovations' year-over-year Medicare Advantage enrollment remained relatively stable, with 230,000 individuals served as of December 31, 2003. Medicaid enrollment increased by 75,000, or 7%, due to strong growth in the number of individuals served by AmeriChoice over the past year.

### Uniprise

Uniprise revenues in 2003 were \$3.1 billion, representing an increase of 14% over 2002. This increase was driven primarily by growth of 6% in the number of individuals served by Uniprise during 2003, annual service fee rate increases for self-insured customers, and a change in customer funding mix during 2002. Uniprise served 9.1 million individuals and 8.6 million individuals as of December 31, 2003 and 2002, respectively.

Uniprise earnings from operations in 2003 were \$610 million, representing an increase of 18% over 2002. Operating margin for 2003 improved to 19.6% from 19.0% in 2002. Uniprise has expanded its operating margin through operating cost efficiencies derived from process improvements, technology deployment and cost management initiatives that have reduced labor and occupancy costs in its transaction processing and customer service, billing and enrollment functions.

### Specialized Care Services

Specialized Care Services revenues during 2003 of \$1.9 billion increased by \$369 million, or 24%, over 2002. This increase was principally driven by an increase in the number of individuals served by United Behavioral Health, its behavioral health benefits business; Dental Benefit Providers, its dental services business; and Spectera, its vision care benefits business; as well as rate increases related to these businesses.

Earnings from operations in 2003 of \$385 million increased \$99 million, or 35%, over 2002. Specialized Care Services' operating margin increased to 20.5% in 2003, up from 19.0% in 2002. This increase was driven primarily by operational and productivity improvements at United Behavioral Health.

### Ingenix

Ingenix revenues in 2003 of \$574 million increased by \$83 million, or 17%, over 2002. This was driven primarily by new business growth in the health information business. Earnings from operations in 2003 were \$75 million, up \$20 million, or 36%, from 2002. Operating margin was 13.1% in 2003, up from 11.2% in 2002. The increase in the operating margin was primarily due to growth in the health information business.

Financial Condition, Liquidity and Capital Resources at December 31, 2004

### LIQUIDITY AND CAPITAL RESOURCES

We manage our cash, investments and capital structure so we are able to meet the short- and long-term obligations of our business while maintaining strong financial flexibility and liquidity. We forecast, analyze and monitor our cash flows to enable prudent investment management and financing within the confines of our financial strategy.

Our regulated subsidiaries generate significant cash flows from operations. A majority of the assets held by our regulated subsidiaries are in the form of cash, cash equivalents and investments. After considering expected cash flows from operating activities, we generally invest cash of regulated subsidiaries that exceed our short-term obligations in longer term, investment-grade, marketable debt securities to improve our overall investment return. Factors we consider in making these investment decisions include our board of directors' approved investment policy, regulatory limitations, return objectives, tax implications, risk tolerance and maturity dates. Our long-term investments are also available for sale to meet short-term liquidity and other needs. Cash in excess of the capital needs of our regulated entities are paid to their non-regulated parent companies, typically in the form of dividends, for general corporate use, when and as permitted by applicable regulations.

Our non-regulated businesses also generate significant cash from operations for general corporate use. Cash flows generated by these entities, combined with the issuance of commercial paper, long-term debt and the availability of committed credit facilities, further strengthen our operating and financial flexibility. We generally use these cash flows to reinvest in our businesses in the form of capital expenditures, to expand the depth and breadth of our services through business acquisitions, and to repurchase shares of our common stock, depending on market conditions.

Cash flows generated from operating activities, our primary source of liquidity, are principally from net earnings, excluding depreciation and amortization. As a result, any future decline in our profitability may have a negative impact on our liquidity. The level of profitability of our risk-based business depends in large part on our ability to accurately predict and price for health care and operating cost increases. This risk is partially mitigated by the diversity of our other businesses, the geographic diversity of our risk-based business and our disciplined underwriting and pricing processes, which seek to match premium rate increases with future health care costs. In 2004, a hypothetical unexpected 1% increase in commercial insured medical costs would have reduced net earnings by approximately \$105 million.

The availability of financing in the form of debt or equity is influenced by many factors, including our profitability, operating cash flows, debt levels, debt ratings, debt covenants and other contractual restrictions, regulatory requirements and market conditions. We believe that our strategies and actions toward maintaining financial flexibility mitigate much of this risk.

#### CASH AND INVESTMENTS

Cash flows from operating activities were \$4.1 billion in 2004, representing an increase over 2003 of \$1.1 billion, or 38%. This increase in operating cash flows resulted primarily from an increase of \$871 million in net income excluding depreciation, amortization and other noncash items. Additionally, operating cash flows increased by \$261 million due to cash generated by working capital changes, driven in part by improved cash collections leading to decreases in accounts receivable and increases in unearned premiums, and an increase in medical costs payable. As premium revenues and related medical costs increase, we generate incremental operating cash flows because we collect premium revenues in advance of the claim payments for related medical costs.

We maintained a strong financial condition and liquidity position, with cash and investments of \$12.3 billion at December 31, 2004. Total cash and investments increased by \$2.8 billion since December 31, 2003, primarily due to \$2.4 billion in cash and investments acquired in the Oxford and MAMSI acquisitions and strong operating cash flows, partially offset by common stock repurchases, cash paid for business acquisitions and capital expenditures.

As further described under Regulatory Capital and Dividend Restrictions, many of our subsidiaries are subject to various government regulations that restrict the timing and amount of dividends and other distributions that may be paid to their parent companies. At December 31, 2004, approximately \$227 million of our \$12.3 billion of cash and investments was held by non-regulated subsidiaries. Of this amount, approximately \$37 million was segregated for future regulatory capital needs and the remainder was available for general corporate use, including acquisitions and share repurchases.

#### FINANCING AND INVESTING ACTIVITIES

In addition to our strong cash flows generated by operating activities, we use commercial paper and debt to maintain adequate operating and financial flexibility. As of December 31, 2004 and 2003, we had commercial paper and debt outstanding of approximately \$4.0 billion and \$2.0 billion, respectively. Our debt-to-total-capital ratio was 27.3% and 27.8% as of December 31, 2004 and December 31, 2003, respectively. We believe the prudent use of debt leverage optimizes our cost of capital and return on shareholders' equity, while maintaining appropriate liquidity.

On July 29, 2004, our Health Care Services business segment acquired Oxford. Under the terms of the purchase agreement, Oxford shareholders received 0.6357 shares of UnitedHealth Group common stock and \$16.17 in cash for each share of Oxford common stock they owned. Total consideration issued was approximately \$5.0 billion, comprised of approximately 52.2 million shares of UnitedHealth Group common stock (valued at approximately \$3.4 billion based upon the average of UnitedHealth Group's share closing price for two days before, the day of and two days after the acquisition announcement date of April 26, 2004), approximately \$1.3 billion in cash and UnitedHealth Group vested common stock options with an estimated fair value of \$240 million issued in exchange for Oxford's outstanding vested common stock options.

On February 10, 2004, our Health Care Services business segment acquired MAMSI. Under the terms of the purchase agreement, MAMSI shareholders received 0.82 shares of UnitedHealth Group common stock and \$18 in cash for each share of MAMSI common stock they owned. Total consideration issued was approximately \$2.7 billion, comprised of 36.4 million shares of UnitedHealth Group common stock (valued at \$1.9 billion based upon the average of UnitedHealth Group's share closing price for two days before, the day of and two days after the acquisition announcement date of October 27, 2003) and approximately \$800 million in cash.

On December 10, 2004, our Uniprise business segment acquired Definity. Under the terms of the purchase agreement, we paid \$305 million in cash in exchange for all of the outstanding stock of Definity. Available cash and commercial paper issuance financed the Definity purchase price.

In July 2004, we issued \$1.2 billion of commercial paper to fund the cash portion of the Oxford purchase price. In August 2004, we refinanced the commercial paper by issuing \$550 million of 3.4% fixed-rate notes due August 2007, \$450 million of 4.1% fixed-rate notes due August 2009 and \$500 million of 5.0% fixed-rate notes due August 2014.

In February 2004, we issued \$250 million of 3.8% fixed-rate notes due February 2009 and \$250 million of 4.8% fixed-rate notes due February 2014. We used the proceeds from the February 2004 borrowings to finance a majority of the cash portion of the MAMSI purchase price as described above.

In December and March 2003, we issued \$500 million of four-year, fixed-rate notes and \$450 million of 10-year, fixed-rate notes with interest rates of 3.3% and 4.9%, respectively. We used the proceeds from the 2003 borrowings to repay commercial paper and maturing term debt, and for general corporate purposes including working capital, capital expenditures, business acquisitions and share repurchases.

We entered into interest rate swap agreements to convert our interest exposure on a majority of these 2003 and 2004 borrowings from a fixed to a variable rate. The interest rate swap agreements on these borrowings have aggregate notional amounts of \$2.9 billion. At December 31, 2004, the rate used to accrue interest expense on these agreements ranged from 2.3% to 3.3%. The differential between the fixed and variable rates to be paid or received is accrued and recognized over the life of the agreements as an adjustment to interest expense in the Consolidated Statements of Operations.

In June 2004, we executed a \$1.0 billion five-year revolving credit facility to support our commercial paper program. This credit facility replaced our existing \$450 million revolving facility that was set to expire in July 2005, and our \$450 million, 364-day facility that was set to expire in July 2004. As of December 31, 2004, we had no amounts outstanding under this credit facility. Commercial paper increased from \$79 million at December 31, 2003, to \$273 million at December 31, 2004.

Our debt arrangements and credit facility contain various covenants, the most restrictive of which require us to maintain a debt-to-total-capital ratio (calculated as the sum of commercial paper and debt divided by the sum of commercial paper, debt and shareholders' equity) below 45% and to exceed specified minimum interest coverage levels. We are in compliance with the requirements of all debt covenants.

Our senior debt is rated "A" by Standard & Poor's (S&P) and Fitch, and "A3" with a positive outlook by Moody's. Our commercial paper is rated "A-1" by S&P, "F-1" by Fitch, and "P-2" with a positive outlook by Moody's. Consistent with our intention of maintaining our senior debt ratings in the "A" range, we intend to maintain our debt-to-total-capital ratio at approximately 30% or less. A significant downgrade in our debt or commercial paper ratings could adversely affect our borrowing capacity and costs.

Under our board of directors' authorization, we maintain a common stock repurchase program. Repurchases may be made from time to time at prevailing prices, subject to certain restrictions on volume, pricing and timing. During 2004, we repurchased 51.4 million shares at an average price of approximately \$68 per share and an aggregate cost of approximately \$3.5 billion. As of December 31, 2004, we had board of directors' authorization to purchase up to an additional 54.6 million shares of our common stock. Our common stock repurchase program is discretionary as we are under no obligation to repurchase shares. We repurchase shares because we believe it is a prudent use of capital. A decision by the company to discontinue share repurchases would significantly increase our liquidity and financial flexibility.

Under our S-3 shelf registration statement (for common stock, preferred stock, debt securities and other securities), the remaining issuing capacity of all covered securities is \$500 million. We intend to file a new S-3 shelf registration statement during the first half of 2005 to increase our remaining issuing capacity. We may publicly offer securities from time to time at prices and terms to be determined at the time of offering. Under our S-4 acquisition shelf registration statement, we have remaining issuing capacity of 24.3 million shares of our common stock in connection with acquisition activities. We filed separate S-4 registration statements for the 36.4 million shares issued in connection with the February 2004 acquisition of MAMSI and for the 52.2 million shares issued in connection with the July 2004 acquisition of Oxford described previously.

#### CONTRACTUAL OBLIGATIONS, OFF-BALANCE SHEET ARRANGEMENTS AND COMMITMENTS

The following table summarizes future obligations due by period as of December 31, 2004, under our various contractual obligations, off-balance sheet arrangements and commitments (in millions):

	2005	2006 to 2007	2008 to 2009	Thereafter	Total
Debt and Commercial Paper <sup>1</sup>	\$ 673	\$ 950	\$1,200	\$1,200	\$ 4,023
Operating Leases	126	222	140	149	637
Purchase Obligations <sup>2</sup>	103	69	12	-	184
Future Policy Benefits'	107	272	224	1,173	1,776
Other Long-Term Obligations	_		58	212	270
Total Contractual Obligations	\$1,009	\$1,513	\$1,634	\$2,734	\$ 6,890

<sup>1</sup> Debt payments could be accelerated upon violation of debt covenants. We believe the likelihood of a debt covenant violation is remote.

Currently, we do not have any other material contractual obligations, off-balance sheet arrangements or commitments that require cash resources; however, we continually evaluate opportunities to expand our operations. This includes internal development of new products, programs and technology applications, and may include acquisitions.

<sup>&</sup>lt;sup>2</sup> Minimum commitments under existing purchase obligations for goods and services.

<sup>&</sup>lt;sup>3</sup> Estimated payments required under life and annuity contracts.

<sup>4</sup> Includes obligations associated with certain employee benefit programs and minority interest purchase commitments.

#### AARP

In January 1998, we entered into a 10-year contract to provide health insurance products and services to members of AARP. These products and services are provided to supplement benefits covered under traditional Medicare. Under the terms of the contract, we are compensated for transaction processing and other services as well as for assuming underwriting risk. We are also engaged in product development activities to complement the insurance offerings under this program. Premium revenues from our portion of the AARP insurance offerings were approximately \$4.5 billion in 2004, \$4.1 billion in 2003 and \$3.7 billion in 2002.

The underwriting gains or losses related to the AARP business are directly recorded as an increase or decrease to a rate stabilization fund (RSF). The primary components of the underwriting results are premium revenue, medical costs, investment income, administrative expenses, member services expenses, marketing expenses and premium taxes. Underwriting gains and losses are recorded as an increase or decrease to the RSF and accrue to the overall benefit of the AARP policyholders, unless cumulative net losses were to exceed the balance in the RSF. To the extent underwriting losses exceed the balance in the RSF, we would have to fund the deficit. Any deficit we fund could be recovered by underwriting gains in future periods of the contract. To date, we have not been required to fund any underwriting deficits. As further described in Note 11 to the consolidated financial statements, the RSF balance is reported in Other Policy Liabilities in the accompanying Consolidated Balance Sheets. We believe the RSF balance is sufficient to cover potential future underwriting or other risks associated with the contract.

## Regulatory Capital and Dividend Restrictions

We conduct a significant portion of our operations through companies that are subject to standards established by the National Association of Insurance Commissioners (NAIC). These standards, among other things, require these subsidiaries to maintain specified levels of statutory capital, as defined by each state, and restrict the timing and amount of dividends and other distributions that may be paid to their parent companies. Generally, the amount of dividend distributions that may be paid by a regulated subsidiary, without prior approval by state regulatory authorities, is limited based on the entity's level of statutory net income and statutory capital and surplus. The agencies that assess our creditworthiness also consider capital adequacy levels when establishing our debt ratings. Consistent with our intent to maintain our senior debt ratings in the "A" range, we maintain an aggregate statutory capital level for our regulated subsidiaries that is significantly higher than the minimum level regulators require. As of December 31, 2004, our regulated subsidiaries had aggregate statutory capital of approximately \$4.1 billion, which is significantly more than the aggregate minimum regulatory requirements.

## Critical Accounting Policies and Estimates

Critical accounting policies are those policies that require management to make the most challenging, subjective or complex judgments, often because they must estimate the effects of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgments and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions. We believe our most critical accounting policies are those described below. For a detailed discussion of these and other accounting policies, see Note 2 to the consolidated financial statements.

#### MEDICAL COSTS

Each reporting period, we estimate our obligations for medical care services that have been rendered on behalf of insured consumers but for which claims have either not yet been received or processed, and for liabilities for physician, hospital and other medical cost disputes. We develop estimates for medical care services incurred but not reported using an actuarial process that is consistently applied, centrally controlled and automated. The actuarial models consider factors such as time from date of service to claim receipt, claim backlogs, seasonal variances in medical care consumption, provider contract rate changes, medical care utilization and other medical cost trends, membership volume and demographics, benefit plan changes, and business mix changes related to products, customers and geography. Depending on the health care provider and type of service, the typical billing lag for services can range from two to 90 days from the date of service. Substantially all claims related to medical care services are known and settled within nine to 12 months from the date of service. We estimate liabilities for physician, hospital and other medical cost disputes based upon an analysis of potential outcomes, assuming a combination of litigation and settlement strategies.

Each period, we re-examine previously established medical costs payable estimates based on actual claim submissions and other changes in facts and circumstances. As the liability estimates recorded in prior periods become more exact, we increase or decrease the amount of the estimates, and include the changes in estimates in medical costs in the period in which the change is identified. In every reporting period, our operating results include the effects of more completely developed medical costs payable estimates associated with previously reported periods. If the revised estimate of prior period medical costs is less than the previous estimate, we will decrease reported medical costs in the current period (favorable development). If the revised estimate of prior period medical costs is more than the previous estimate, we will increase reported medical costs in the current period (unfavorable development). Historically, the net impact of estimate developments has represented less than one-half of 1% of annual medical costs, less than 4% of annual earnings from operations and less than 3% of medical costs payable.

In order to evaluate the impact of changes in medical cost estimates for any particular discrete period, one should consider both the amount of development recorded in the current period pertaining to prior periods and the amount of development recorded in subsequent periods pertaining to the current period. The accompanying table provides a summary of the net impact of favorable development on medical costs and earnings from operations (in millions).

	Favo	orable	Net I	mpact on	Medica	al Costs Earnings fro		from Operations		
	Devel	opment		al Costs (a)	As Reported	As Adjusted (b)	As Reported	As Adjusted (.)		
2001	\$	30	\$	<b>(40)</b>	\$ 17,644	\$ 17,604	\$ 1,566	\$ 1,606		
2002	\$	70	\$	(80)	\$ 18,192	\$ 18,112	\$ 2,186	\$ 2,266		
2003	\$	150	\$	(60)	\$ 20,714	\$ 20,654	\$ 2,935	\$ 2,995		
2004	\$	210		(c)	\$ 27,000	(c)	\$ 4,101	(c <u>)</u>		

- a) The amount of favorable development recorded in the current year pertaining to the prior year less the amount of favorable development recorded in the subsequent year pertaining to the current year.
- b) Represents reported amounts adjusted to reflect the net impact of medical cost development.
- c) Not yet determinable as the amount of prior period development recorded in 2005 will change as our December 31, 2004 medical costs payable estimate develops throughout 2005.

Our estimate of medical costs payable represents management's best estimate of the company's liability for unpaid medical costs as of December 31, 2004, developed using consistently applied actuarial methods. Management believes the amount of medical costs payable is reasonable and adequate to cover the company's liability for unpaid claims as of December 31, 2004; however, actual claim payments may differ from established estimates. Assuming a hypothetical 1% difference between our December 31, 2004 estimates of medical costs payable and actual costs payable, excluding the AARP business, 2004 earnings from operations would increase or decrease by \$46 million and diluted net earnings per common share would increase or decrease by approximately \$0.05 per share.

#### LONG-LIVED ASSETS

As of December 31, 2004, we had long-lived assets, including goodwill, other intangible assets, property, equipment and capitalized software, of \$11.8 billion. We review our goodwill for impairment annually at the reporting unit level, and we review our remaining long-lived assets for impairment when events and changes in circumstances indicate we might not recover their carrying value. To determine the fair value of the respective assets and assess the recoverability of our long-lived assets, we must make assumptions about a wide variety of internal and external factors including estimated future utility and estimated future cash flows, which in turn are based on estimates of future revenues, expenses and operating margins. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for these assets that could materially affect our results of operations and shareholders' equity in the period in which the impairment occurs.

#### INVESTMENTS

As of December 31, 2004, we had approximately \$8.3 billion of investments, primarily held in marketable debt securities. Our investments are principally classified as available for sale and are recorded at fair value. We exclude unrealized gains and losses on investments available for sale from earnings and report them together, net of income tax effects, as a separate component in shareholders' equity. We continually monitor the difference between the cost and fair value of our investments. As of December 31, 2004, our investments had gross unrealized gains of \$215 million and gross unrealized losses of \$11 million. If any of our investments experience a decline in fair value that is determined to be other than temporary, based on analysis of relevant factors, we record a realized loss in our Consolidated Statements of Operations. Management judgment is involved in evaluating whether a decline in an investment's fair value is other than temporary. New information and the passage of time can change these judgments. We revise impairment judgments when new information becomes known and record any resulting impairment charges at that time. We manage our investment portfolio to limit our exposure to any one issuer or industry and largely limit our investments to U.S. Government and Agency securities, state and municipal securities, and corporate debt obligations that are investment grade.

#### REVENUES

Revenues are principally derived from health care insurance premiums. We recognize premium revenues in the period eligible individuals are entitled to receive health care services. Customers are typically billed monthly at a contracted rate per eligible person multiplied by the total number of people eligible to receive services, as recorded in our records. Employer groups generally provide us with changes to their eligible population one month in arrears. Each billing includes an adjustment for prior month changes in eligibility status that were not reflected in our previous billing. We estimate and adjust the current period's revenues and accounts receivable accordingly. Our estimates are based on historical trends, premiums billed, the level of contract renewal activity and other relevant information. We revise estimates of revenue adjustments each period, and record changes in the period they become known.

## CONTINGENT LIABILITIES

Because of the nature of our businesses, we are routinely involved in various disputes, legal proceedings and governmental audits and investigations. We record liabilities for our estimates of the probable costs resulting from these matters. Our estimates are developed in consultation with outside legal counsel and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies and considering our insurance coverages, if any, for such matters. We do not believe any matters currently threatened or pending will have a material adverse effect on our consolidated financial position or results of operations. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in our estimates or assumptions.

#### Inflation

The current national health care cost inflation rate significantly exceeds the general inflation rate. We use various strategies to lessen the effects of health care cost inflation. These include setting commercial premiums based on anticipated health care costs and coordinating care with physicians and other health care providers. Through contracts with physicians and other health care providers, we emphasize preventive health care, appropriate use of health care services consistent with clinical performance standards, education and closing gaps in care.

We believe our strategies to mitigate the impact of health care cost inflation on our operating results have been and will continue to be successful. However, other factors including competitive pressures, new health care and pharmaceutical product introductions, demands from physicians and other health care providers and consumers, major epidemics, and applicable regulations may affect our ability to control the impact of health care cost inflation. Because of the narrow operating margins of our risk-based products, changes in medical cost trends that were not anticipated in establishing premium rates can create significant changes in our financial results.

## Legal Matters

Because of the nature of our businesses, we are routinely made party to a variety of legal actions related to the design, management and offerings of our services. We record liabilities for our estimates of probable costs resulting from these matters. These matters include, but are not limited to, claims relating to health care benefits coverage, medical malpractice actions, contract disputes and claims related to disclosure of certain business practices. Following the events of September 11, 2001, the cost of business insurance coverage increased significantly. As a result, we have increased the amount of risk that we self-insure, particularly with respect to matters incidental to our business.

In Re: Managed Care Litigation: MDL No. 1334. Beginning in 1999, a series of class action lawsuits were filed against us and virtually all major entities in the health benefits business. In December 2000, a multidistrict litigation panel consolidated several litigation cases involving UnitedHealth Group and our affiliates in the Southern District Court of Florida, Miami division. Generally, the health care provider plaintiffs allege violations of ERISA and RICO in connection with alleged undisclosed policies intended to maximize profits. Other allegations include breach of state prompt payment laws and breach of contract claims for failure to timely reimburse providers for medical services rendered. The consolidated suits seek injunctive, compensatory and equitable relief as well as restitution, costs, fees and interest payments. The trial court granted the health care providers' motion for class certification and that order was reviewed by the Eleventh Circuit Court of Appeals. The Eleventh Circuit affirmed the class action status of the RICO claims, but reversed as to the breach of contract, unjust enrichment and prompt payment claims. Through a series of motions and appeals, all direct claims against UnitedHealthcare have been compelled to arbitration. The trial court has denied UnitedHealthcare's further motion to compel the secondary RICO claims to arbitration and the Eleventh Circuit affirmed that order. A trial date has been set for September 2005. The trial court has ordered that the trial be bifurcated into separate liability and damage proceedings.

The American Medical Association et al. v. Metropolitan Life Insurance Company, United Health Care Services, Inc. and UnitedHealth Group. On March 15, 2000, the American Medical Association filed a lawsuit against the company in the Supreme Court of the State of New York, County of New York. On April 13, 2000, we removed this case to the United States District Court for the Southern District of New York. The suit alleges causes of action based on ERISA, as well as breach of contract and the implied covenant of good faith and fair dealing, deceptive acts and practices, and trade libel in connection with the calculation of reasonable and customary reimbursement rates for non-network providers. The suit seeks declaratory, injunctive and compensatory relief as well as costs, fees and interest payments. An amended complaint was filed on August 25, 2000, which alleged two classes of plaintiffs, an ERISA class and a non-ERISA class. After the Court dismissed certain ERISA claims and the claims brought by the American Medical Association, a third amended complaint was filed. On October 25, 2002, the court granted in part and denied in part our motion to dismiss the third amended complaint. On May 21, 2003, we filed a counterclaim complaint in this matter alleging antitrust violations against the American Medical Association and asserting claims based on improper billing practices against an individual provider plaintiff. On May 26, 2004, we filed a motion for partial summary judgment seeking the dismissal of certain claims and parties based, in part, due to lack of standing. On July 16, 2004, plaintiffs filed a motion for leave to file an amended complaint, seeking to assert RICO violations.

Although the results of pending litigation are always uncertain, we do not believe the results of any such actions currently threatened or pending, including those described above, will, individually or in aggregate, have a material adverse effect on our consolidated financial position or results of operations.

#### Quantitative and Qualitative Disclosures about Market Risks

Market risk represents the risk of changes in the fair value of a financial instrument caused by changes in interest rates or equity prices. The company's primary market risk is exposure to changes in interest rates that could impact the fair value of our investments and long-term debt.

Approximately \$12.0 billion of our cash equivalents and investments at December 31, 2004 were debt securities. Assuming a hypothetical and immediate 1% increase or decrease in interest rates applicable to our fixed-income investment portfolio at December 31, 2004, the fair value of our fixed-income investments would decrease or increase by approximately \$355 million. We manage our investment portfolio to limit our exposure to any one issuer or industry and largely limit our investments to U.S. Government and Agency securities, state and municipal securities, and corporate debt obligations that are investment grade.

To mitigate the financial impact of changes in interest rates, we have entered into interest rate swap agreements to more closely match the interest rates of our long-term debt with those of our cash equivalents and short-term investments. Including the impact of our interest rate swap agreements, approximately \$3.2 billion of our commercial paper and debt had variable rates of interest and \$825 million had fixed rates as of December 31, 2004. A hypothetical 1% increase or decrease in interest rates would not be material to the fair value of our commercial paper and debt.

At December 31, 2004, we had \$207 million of equity investments, primarily held by our UnitedHealth Capital business in various public and non-public companies concentrated in the areas of health care delivery and related information technologies. Market conditions that affect the value of health care or technology stocks will likewise impact the value of our equity portfolio.

#### Concentrations of Credit Risk

Investments in financial instruments such as marketable securities and accounts receivable may subject UnitedHealth Group to concentrations of credit risk. Our investments in marketable securities are managed under an investment policy authorized by our board of directors. This policy limits the amounts that may be invested in any one issuer and generally limits our investments to U.S. Government and Agency securities, state and municipal securities and corporate debt obligations that are investment grade. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of employer groups that constitute our customer base. As of December 31, 2004, there were no significant concentrations of credit risk.

### Cautionary Statements

The statements contained in Results of Operations and other sections of this Annual Report include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (PSLRA), When used in this report, the words and phrases "believes," "anticipates," "intends," "will likely result," "estimates," "projects" and similar expressions are intended to identify such forward-looking statements. These forward-looking statements involve risks and uncertainties that may cause the company's actual results to differ materially from the results discussed in the forward-looking statements. Statements that are not strictly historical are "forward-looking" and known and unknown risks may cause actual results and corporate developments to differ materially from those expected. Except to the extent otherwise required by federal securities laws, we do not undertake to address or update each statement in future filings or communications, and do not undertake to address how any of these factors may have caused results to differ from discussions or information contained in previous filings or communications. Any or all forward-looking statements in this report and in any other public statements we make may turn out to be inaccurate. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties.

Many factors will be important in determining future results. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially from those expressed in our prior communications. Factors that could cause results and developments to differ materially from expectations include, without limitation, (a) increases in medical costs that are higher than we anticipated in establishing our premium rates, including increased consumption of or costs of medical services; (b) increases in costs associated with increased litigation, legislative activity and government regulation and review of our industry; (c) possible impairment of the value of our intangible assets if future results do not adequately support goodwill and intangible assets recorded for businesses that we acquire; (d) heightened competition as a result of new entrants into our market, and consolidation of health care companies and suppliers; (e) failure to maintain effective and efficient information systems, which could result in the loss of existing customers, difficulties in attracting new customers, difficulties in determining medical costs estimates and appropriate pricing, customer and physician and health care provider disputes, regulatory violations, increases in operating costs or other adverse consequences; (f) events that may negatively affect our contract with AARP; (g) misappropriation of our proprietary technology; (h) our ability to execute contracts on favorable terms with physicians, hospitals and other service providers; (i) increased competition and other uncertainties resulting from changes in Medicare laws; and (j) potential effects of terrorism, particularly bioterrorism, including increased use of health care services, disruption of information and payment systems, and increased health care costs. Additional information about these risks, uncertainties and other matters can be found in our Annual Report on Form 10-K for the year ended December 31, 2004.

## CONSOLUDATEDESTATEMENTS OF OPERA TONS

	For the Year Ended December				
(in millions, except per share data)	2004	2003	2002		
REVENUES					
Premiums	\$ 33,495	\$ 25,448	\$ 21,906		
Services	3,335	3,118	2,894		
Investment and Other Income	388	257	220		
Total Revenues	37,218	28,823	25,020		
MEDICAL AND OPERATING COSTS					
Medical Costs	27,000	20,714	18,192		
Operating Costs	5,743	4,875	4,387		
Depreciation and Amortization	374	299	255		
_ Total Medical and Operating Costs	33,117	25,888	22,834		
EARNINGS FROM OPERATIONS	4,101	2,935	2,186		
Interest Expense	(128)	(95)	(90)		
EARNINGS BEFORE INCOME TAXES	3,973	2,840	2,096		
Provision for Income Taxes	(1,386)	(1,015)	2,030 (744)		
Frovision for income taxes	(1,300)	(1,015)	(711)		
NET EARNINGS	\$ 2,587	\$ 1,825	\$ 1,352		
BASIC NET EARNINGS PER COMMON SHARE	\$ 4.13	\$ 3.10	\$ 2.23		
DILUTED NET EARNINGS PER COMMON SHARE	\$ 3.94	\$ 2.96	\$ 2.13		
BASIC WEIGHTED-AVERAGE NUMBER OF COMMON					
SHARES OUTSTANDING	626	589	607		
DILUTIVE EFFECT OF OUTSTANDING STOCK OPTIONS	30	28	29		
DILUTED WEIGHTED-AVERAGE NUMBER OF COMMON					
SHARES OUTSTANDING	656	617	636		

## CONSOLIDATED BALANCE SHEETS

			As of December	81.
(in millions, except per share data)		2004	And December	2003
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$	3,991	\$	2,262
Short-Term Investments		514		486
Accounts Receivable, net of allowances of \$101 and \$88		906		745
Assets Under Management		1,930		2,019
Deferred Income Taxes		353		269
Other Current Assets		547		339
Total Current Assets		8,241		6,120
Long-Term Investments		7,748		6,729
Property, Equipment and Capitalized Software, net of accumulated				
depreciation and amortization of \$660 and \$538		1,139		1,032
Goodwill		9,470		3,509
Other Intangible Assets, net of accumulated amortization of \$103 and \$43		1,205		180
Other Assets		76		64
TOTAL ASSETS	\$	27,879	\$	17,634
LIABILITIES AND GUARFING PERCUENT				
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities  Medical Coate Poughlo	\$	5,540	\$	4,152
Medical Costs Payable	Ф	•	Φ	1,575
Accounts Payable and Accrued Liabilities		2,107		2,117
Other Policy Liabilities		1,933 673		2,117
Commercial Paper and Current Maturities of Long-Term Debt				695
Unearned Premiums		1,076		
Total Current Liabilities		11,329		8,768
Long-Term Debt, less current maturities		3,350		1,750
Future Policy Benefits for Life and Annuity Contracts		1,669		1,517
Deferred Income Taxes and Other Liabilities		814		471
Commitments and Contingencies (Note 12)				
Shareholders' Equity				
Common Stock, \$0.01 par value - 1,500 shares authorized;				
643 and 583 shares outstanding		6		6
Additional Paid-In Capital		3,095		58
Retained Earnings		7,484		4,915
Accumulated Other Comprehensive Income:				
Net Unrealized Gains on Investments, net of tax effects		132		149
TOTAL SHAREHOLDERS' EQUITY		10,717		5,128
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$	27,879	\$	17,634

## CONSOLEDATEDESTATEMENTISCOE GEVANGES IN SERARE FOLDERS FOUNTY

	Common Stock Paid-In		Paid-In Retained		stained Gains on		et Unrealized Total Gains on Shareholders'			
(in millions)	Shares	Атп	ount	Cap	itai	Earnings	Inves	tments	Equity	Income
BALANCE AT DECEMBER 31, 2001	617	\$	6	\$	36	\$ 3,805	\$	44	\$ 3,891	
Issuances of Common Stock,										
and related tax benefits	26		_		905	_		_	905	
Common Stock Repurchases	(44)		_	(	771)	(1,044)		_	(1,815)	
Comprehensive Income	•									
Net Earnings	_		_		~	1,352		_	1,352	\$1,352
Other Comprehensive Income Adjustments										
Change in Net Unrealized Cains										
on Investments, net of tax effects	_		_			-		104	104	104
Comprehensive Income										\$1,456
Common Stock Dividend	_		-		-	(9)		_	(9)	
BALANCE AT DECEMBER 31, 2002	599		6		170	4,104		148	4,428	
Issuances of Common Stock,										
and related tax benefits	17				490	-		-	490	
Common Stock Repurchases	(33)		-	(	602)	(1,005)		-	(1,607)	
Comprehensive Income										
Net Earnings	_		-		-	1,825		_	1,825	\$1,825
Other Comprehensive Income Adjustments										
Change in Net Unrealized Gains										
on Investments, net of tax effects	-		_		_	-		1	1	1
Comprehensive Income										<u>\$1,826</u> _
Common Stock Dividend	_		-		_	(9)		_	(9)	
741 41105 47 0505Mg50 04 0000	583		6		58	4,915		149	5,128	
BALANCE AT DECEMBER 31, 2003  Issuances of Common Stock,	300		·		30	4,313		140	9,120	
and related tax benefits	111		1	e	482			_	6,483	
	(51)				445)			_	(3,446)	
Common Stock Repurchases	(51)		(1)	(0,	440)	-		_	(3,440)	
Comprehensive Income						2,587			2,587	\$ 2.587
Net Earnings	_		-			2,001		_	2,007	\$ 2,501
Other Comprehensive Income Adjustments										
Change in Net Unrealized Gains								47	(47)	(47)
on Investments, net of tax effects	-		-		_	-		(17)	(17)	(17)
Comprehensive Income						/4 O			(40)	<b>\$</b> 2,570
Common Stock Dividend	-		_		_	(18)		-	(18)	
BALANCE AT DECEMBER 31, 2004	643	\$	6	\$ 3,	095	\$ 7,484	\$	132	\$10,717	

## CONSOLIDATED STATEMENTS OF CASH ELOWS

(in millions)		For d <b>2004</b>	he Yea	r Ended Decer 2003	mber 3]	l, <b>20</b> 02
OPERATING ACTIVITIES						
Net Earnings	\$	2,587	\$	1,825	\$	1,352
Noncash Items						
Depreciation and Amortization		374		299		255
Deferred Income Taxes and Other		125		91		154
Net Change in Other Operating Items, net of effects						
from acquisitions, and changes in AARP balances						
Accounts Receivable and Other Current Assets		(30)		(46)		83
Medical Costs Payable		322		276		74
Accounts Payable and Accrued Liabilities		586		460		423
Other Policy Liabilities		37		87		70
Unearned Premiums		134		11		12
CASH FLOWS FROM OPERATING ACTIVITIES		4,135		3,003		2,423
INVESTING ACTIVITIES						
Cash Paid for Acquisitions, net of cash assumed and other effects		(2,225)		(590)		(302)
Purchases of Property, Equipment and Capitalized Software		(350)		(352)		(419)
Purchases of Investments		(3,190)		(2,583)		(3,246)
Maturities and Sales of Investments		4,121		2,780		2,576
CASH FLOWS USED FOR INVESTING ACTIVITIES		(1,644)		(745)		(1,391)
FINANCING ACTIVITIES						
Proceeds from (Payments of) Commercial Paper, net		194		(382)		(223)
Proceeds from Issuance of Long-Term Debt		2,000		950		400
Payments for Retirement of Long-Term Debt		(150)		(350)		-
Common Stock Repurchases		(3,446)		(1,607)		(1,815)
Proceeds from Common Stock Issuances		583		268		205
Dividends Paid		(18)		(9)		(9)
Other		75		4		-
CASH FLOWS USED FOR FINANCING ACTIVITIES		(762)		(1,126)		(1,442)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		1,729		1,132		(410)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		2,262		1,130		1,540
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$	3,991	\$	2,262	\$	1,130
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCE	NG A	CTIVITIES				
Common Stock Issued for Acquisitions	\$	5,557	\$	-	\$	567

### 1 Description of Business

UnitedHealth Group Incorporated (also referred to as "UnitedHealth Group," "the company," "we," "us," and "our") is a diversified health and well-being company dedicated to making health care work better. Through strategically aligned, market-defined businesses, we design products, provide services and apply technologies that improve access to health and well-being services, simplify the health care experience, promote quality and make health care more affordable.

2 Summary of Significant Accounting Policies

#### BASIS OF PRESENTATION

We have prepared the consolidated financial statements according to accounting principles generally accepted in the United States of America and have included the accounts of UnitedHealth Group and its subsidiaries. We have eliminated all significant intercompany balances and transactions.

#### **USE OF ESTIMATES**

These consolidated financial statements include certain amounts that are based on our best estimates and judgments. These estimates require us to apply complex assumptions and judgments, often because we must make estimates about the effects of matters that are inherently uncertain and will change in subsequent periods. The most significant estimates relate to medical costs, medical costs payable, contingent liabilities, intangible asset valuations, asset impairments and revenues. We adjust these estimates each period, as more current information becomes available. The impact of any changes in estimates is included in the determination of earnings in the period in which the estimate is adjusted.

#### REVENUES

Premium revenues are primarily derived from risk-based health insurance arrangements in which the premium is fixed, typically for a one-year period, and we assume the economic risk of funding our customers' health care services and related administrative costs. We recognize premium revenues in the period in which eligible individuals are entitled to receive health care services. We record health care premium payments we receive from our customers in advance of the service period as unearned premiums.

Service revenues consist primarily of fees derived from services performed for customers that self-insure the medical costs of their employees and their dependents. Under service fee contracts, we recognize revenue in the period the related services are performed based upon the fee charged to the customer. The customers retain the risk of financing medical benefits for their employees and their employees' dependents, and we administer the payment of customer funds to physicians and other health care providers from customer-funded bank accounts. Because we do not have the obligation for funding the medical expenses, nor do we have responsibility for delivering the medical care, we do not recognize gross revenue and medical costs for these contracts in our consolidated financial statements.

For both premium risk-based and fee-based customer arrangements, we provide coordination and facilitation of medical services; transaction processing; customer, consumer and care provider services; and access to contracted networks of physicians, hospitals and other health care professionals.

#### MEDICAL COSTS AND MEDICAL COSTS PAYABLE

Medical costs and medical costs payable include estimates of our obligations for medical care services that have been rendered on behalf of insured consumers but for which we have either not yet received or processed claims, and for liabilities for physician, hospital and other medical cost disputes. We develop estimates for medical costs incurred but not reported using an actuarial process that is consistently applied, centrally controlled and automated. The actuarial models consider factors such as time from date of service to claim receipt, claim backlogs, provider contract rate changes, medical care consumption and other medical cost trends. Each period, we re-examine previously established medical costs payable estimates based on actual claim submissions and other changes in facts and circumstances. As the liability estimates recorded in prior periods become more exact, we increase or decrease the amount of the estimates, and include the changes in estimates in medical costs in the period in which the change is identified. In every reporting period, our operating results include the effects of more completely developed medical costs payable estimates associated with previously reported periods.

#### CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents are highly liquid investments that generally have an original maturity of three months or less. The fair value of cash and cash equivalents approximates their carrying value because of the short maturity of the instruments. Investments with maturities of less than one year are classified as short-term. We may sell investments classified as long-term before their maturities to fund working capital or for other purposes. Because of regulatory requirements, certain investments are included in long-term investments regardless of their maturity date. We classify these investments as held to maturity and report them at amortized cost. All other investments are classified as available for sale and reported at fair value based on quoted market prices.

We exclude unrealized gains and losses on investments available for sale from earnings and report it, net of income tax effects, as a separate component of shareholders' equity. We continually monitor the difference between the cost and estimated fair value of our investments. If any of our investments experiences a decline in value that is determined to be other than temporary, based on analysis of relevant factors, we record a realized loss in Investment and Other Income in our Consolidated Statements of Operations. To calculate realized gains and losses on the sale of investments, we use the specific cost or amortized cost of each investment sold.

#### ASSETS UNDER MANAGEMENT

We administer certain aspects of AARP's insurance program (see Note 11). Pursuant to our agreement, AARP assets are managed separately from our general investment portfolio and are used to pay costs associated with the AARP program. These assets are invested at our discretion, within investment guidelines approved by AARP. We do not guarantee any rates of return on these investments and, upon transfer of the AARP contract to another entity, we would transfer cash equal in amount to the fair value of these investments at the date of transfer to that entity. Because the purpose of these assets is to fund the medical costs payable, the rate stabilization fund (RSF) liabilities and other related liabilities associated with the AARP contract, assets under management are classified as current assets, consistent with the classification of these liabilities. Interest earnings and realized investment gains and losses on these assets accrue to the overall benefit of the AARP policyholders through the RSF. As such, they are not included in our earnings.

#### PROPERTY, EQUIPMENT AND CAPITALIZED SOFTWARE

Property, equipment and capitalized software is stated at cost, net of accumulated depreciation and amortization. Capitalized software consists of certain costs incurred in the development of internal-use software, including external direct costs of materials and services and payroll costs of employees devoted to specific software development.

We calculate depreciation and amortization using the straight-line method over the estimated useful lives of the assets. The useful lives for property, equipment and capitalized software are: from three to seven years for furniture, fixtures and equipment; from 35 to 40 years for buildings; the shorter of the useful life or remaining lease term for leasehold improvements; and from three to nine years for capitalized software. The weighted-average useful life of property, equipment and capitalized software at December 31, 2004, was approximately five years. The net book value of property and equipment was \$543 million and \$503 million as of December 31, 2004 and 2003, respectively. The net book value of capitalized software was \$596 million and \$529 million as of December 31, 2004 and 2003, respectively.

#### GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the amount by which the purchase price and transaction costs of businesses we have acquired exceed the estimated fair value of the net tangible assets and separately identifiable intangible assets of these businesses. Goodwill and intangible assets with indefinite useful lives are not amortized, but are tested at least annually for impairment. Intangible assets with discrete useful lives are amortized on a straight-line basis over their estimated useful lives.

#### LONG-LIVED ASSETS

We review long-lived assets, including property, equipment, capitalized software and intangible assets, for events or changes in circumstances that would indicate we might not recover their carrying value. We consider many factors, including estimated future utility and cash flows associated with the assets, to make this decision. An impairment charge is recorded for the amount by which an asset's carrying value exceeds its estimated fair value. We record assets held for sale at the lower of their carrying amount or fair value, less any costs for the final settlement.

## OTHER POLICY LIABILITIES

Other policy liabilities include the RSF associated with the AARP program (see Note 11), customer balances related to experience-rated insurance products and the current portion of future policy benefits for life insurance and annuity contracts. Customer balances represent excess customer payments and deposit accounts under experience-rated contracts. At the customer's option, these balances may be refunded or used to pay future premiums or claims under eligible contracts.

### INCOME TAXES

Deferred income tax assets and liabilities are recognized for the differences between the financial and income tax reporting bases of assets and liabilities based on enacted tax rates and laws. The deferred income tax provision or benefit generally reflects the net change in deferred income tax assets and liabilities during the year, excluding any deferred income tax assets and liabilities of acquired businesses. The current income tax provision reflects the tax consequences of revenues and expenses currently taxable or deductible on various income tax returns for the year reported.

## FUTURE POLICY BENEFITS FOR LIFE AND ANNUITY CONTRACTS

Future policy benefits for life insurance and annuity contracts represents account balances that accrue to the benefit of the policyholders, excluding surrender charges, for universal life and investment annuity products.

#### POLICY ACQUISITION COSTS

For our health insurance contracts, costs related to the acquisition and renewal of customer contracts are charged to expense as incurred. Our health insurance contracts typically have a one-year term and may be cancelled upon 30 days notice by either the company or the customer.

#### STOCK-BASED COMPENSATION

We account for activity under our stock-based employee compensation plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, we do not recognize compensation expense in connection with employee stock option grants because we grant stock options at exercise prices not less than the fair value of our common stock on the date of grant.

The following table shows the effect on net earnings and earnings per share had we applied the fair value expense recognition provisions of Statement of Financial Accounting Standards (FAS) No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation.

(in millions, except per share data)	For the Year Ended Decem				nber 31,	2002
NET EARNINGS		2001		2000		2002
	\$	A 507	æ	1 005	\$	1 950
As Reported	2	2,587	\$	1,825	Ф	1,352
Compensation Expense, net of tax effect		(132)		(122)		(101)
Pro Forma	\$	2,455	\$	1,703	\$	1,251
BASIC NET EARNINGS PER COMMON SHARE						
As Reported	\$	4.13	\$	3.10	\$	2.23
Pro Forma	\$	3.92	\$	2.89	\$	2.06
DILUTED NET EARNINGS PER COMMON SHARE						
As Reported	\$	3.94	\$	2.96	\$	2.13
Pro Forma	\$	3.74	\$	2.76	\$	1.97
WEIGHTED-AVERAGE FAIR VALUE PER SHARE OF						
OPTIONS GRANTED	\$	19	\$	11	\$	14

Information on our stock-based compensation plans and data used to calculate compensation expense in the table above are described in more detail in Note 9.

## **NET EARNINGS PER COMMON SHARE**

We compute basic net earnings per common share by dividing net earnings by the weighted-average number of common shares outstanding during the period. We determine diluted net earnings per common share using the weighted-average number of common shares outstanding during the period, adjusted for potentially dilutive shares that might be issued upon exercise of common stock options.

## **DERIVATIVE FINANCIAL INSTRUMENTS**

As part of our risk management strategy, we enter into interest rate swap agreements to manage our exposure to interest rate risk. The differential between fixed and variable rates to be paid or received is accrued and recognized over the life of the agreements as an adjustment to interest expense in the Consolidated Statements of Operations. Our existing interest rate swap agreements convert a portion of our interest rate exposure from a fixed to a variable rate and are accounted for as fair value hedges. Additional information on our existing interest rate swap agreements is included in Note 7.

#### RECENTLY ISSUED ACCOUNTING STANDARDS

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" (FAS No. 123(R)), which amends FASB Statement Nos. 123 and 95. FAS No. 123(R) requires all companies to measure compensation expense for all share-based payments (including employee stock options) at fair value and recognize the expense over the related service period. Additionally, excess tax benefits, as defined in FAS No. 123(R), will be recognized as an addition to paid-in capital and will be reclassified from operating cash flows to financing cash flows in the Consolidated Statements of Cash Flows. FAS No. 123(R) will be effective for the third quarter of 2005. We are currently evaluating the effect that FAS No. 123(R) will have on our financial position, results of operations and operating cash flows. We have included information regarding the effect on net earnings and net earnings per common share had we applied the fair value expense recognition provisions of the original FAS No. 123 within the "Stock-Based Compensation" heading in this note.

In March 2004, the FASB issued EITF Issue No. 03-1 ("EITF 03-1"), "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments." EITF 03-1 includes new guidance for evaluating and recording impairment losses on certain debt and equity investments when the fair value of the investment security is less than its carrying value. In September 2004, the FASB delayed the effective date beyond 2004 for the measurement and recognition provisions until the issuance of additional implementation guidance. The delay does not suspend the requirement to recognize impairment losses as required by existing authoritative literature. We will evaluate the impact of this new accounting standard on our process for determining other-than-temporary impairments of applicable debt and equity securities upon final issuance.

### 3 Acquisitions

On July 29, 2004, our Health Care Services business segment acquired Oxford Health Plans, Inc. (Oxford). Oxford provides health care and benefit services for individuals and employers, principally in New York City, northern New Jersey and southern Connecticut. This merger strengthened our market position in this region and provided substantial distribution opportunities in this region for our other UnitedHealth Group businesses. Under the terms of the purchase agreement, Oxford shareholders received 0.6357 shares of UnitedHealth Group common stock and \$16.17 in cash for each share of Oxford common stock they owned. Total consideration issued was approximately \$5.0 billion, comprised of approximately 52.2 million shares of UnitedHealth Group common stock (valued at approximately \$3.4 billion based upon the average of UnitedHealth Group's share closing price for two days before, the day of and two days after the acquisition announcement date of April 26, 2004), approximately \$1.3 billion in cash and UnitedHealth Group vested common stock options with an estimated fair value of \$240 million issued in exchange for Oxford's outstanding vested common stock options. The purchase price and costs associated with the acquisition exceeded the preliminary estimated fair value of the net tangible assets acquired by approximately \$4.2 billion. Pending completion of an independent valuation analysis, we have preliminarily allocated the excess purchase price over the fair value of the net tangible assets acquired to finite-lived intangible assets of \$735 million and associated deferred tax liabilities of \$277 million, and goodwill of approximately \$3.7 billion. The finite-lived intangible assets consist primarily of member lists and health care physician and hospital networks, with an estimated weighted-average useful life of 15 years. The acquired goodwill is not deductible for income tax purposes. Our preliminary estimate of the fair value of the tangible assets/(liabilities) as of the acquisition date, which is subject to further refinement, is as follows: (in millions)

(in immous)	
Cash, Cash Equivalents and Investments	\$ 1,674
Accounts Receivable and Other Current Assets	165
Property, Equipment, Capitalized Software and Other Assets	37
Medical Costs Payable	(713)
Other Current Liabilities	(325)
Net Tangible Assets Acquired	\$ 838

On February 10, 2004, our Health Care Services business segment acquired Mid Atlantic Medical Services, Inc. (MAMSI). MAMSI offers a broad range of health care coverage and related administrative services for individuals and employers in the mid-Atlantic region of the United States. This merger strengthened UnitedHealthcare's market position in the mid-Atlantic region and provided substantial distribution opportunities for other UnitedHealth Group businesses in this region. Under the terms of the purchase agreement, MAMSI shareholders received 0.82 shares of UnitedHealth Group common stock and \$18 in cash for each share of MAMSI common stock they owned. Total consideration issued was approximately \$2.7 billion, comprised of 36.4 million shares of UnitedHealth Group common stock (valued at \$1.9 billion based on the average of UnitedHealth Group's share closing price for two days before, the day of and two days after the acquisition announcement date of October 27, 2003) and \$800 million in cash. The purchase price and costs associated with the acquisition exceeded the estimated fair value of the net tangible assets acquired by approximately \$2.1 billion. Based on management's consideration of fair value, which included an independent valuation analysis, we have allocated the excess purchase price over the fair value of the net tangible assets acquired to finite-lived intangible assets of approximately \$280 million and associated deferred tax liabilities of approximately \$100 million, and goodwill of approximately \$1.9 billion. The finite-lived intangible assets consist of member lists, health care physician and hospital networks, and trademarks, with an estimated weighted-average useful life of 17 years. The acquired goodwill is not deductible for income tax purposes. Our estimate of the fair value of the tangible assets/(liabilities) as of the acquisition date is as follows:

(in millions)	
Cash, Cash Equivalents and Investments	\$ 736
Accounts Receivable and Other Current Assets	228
Property, Equipment, Capitalized Software and Other Assets	66
Medical Costs Payable	(283)
Other Current Liabilities	(136)
Net Tangible Assets Acquired	\$ 611

The results of operations and financial condition of Oxford and MAMSI have been included in our consolidated financial statements since the acquisition date. The unaudited pro forma financial information presented below assumes that the acquisitions of Oxford and MAMSI had occurred as of the beginning of each respective period presented below. The pro forma adjustments include the pro forma effect of UnitedHealth Group shares issued in the acquisitions, the amortization of finite-lived intangible assets arising from the purchase price allocations, interest expense related to financing the cash portion of the purchase price and the associated income tax effects of the pro forma adjustments. Because the unaudited pro forma financial information has been prepared based on estimates of fair values, the actual amounts recorded as of the completion of the Oxford purchase price allocation may differ from the information presented below. The unaudited pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that would have occurred had the Oxford and MAMSI acquisitions been consummated at the beginning of the respective periods.

	2004	2003
(in millions, except per share data)	(Pro Forma Unaudited)	(Pro Forma Unaudited)
Revenues	<b>\$ 40,773</b>	\$ 36,809
Net Earnings	<b>\$</b> 2,776	\$ 2,257
Earnings Per Share:		
Basic	<b>\$ 4.21</b>	\$ 3.33
Diluted	\$ 4.03	\$ 3.19

On December 10, 2004, our Uniprise business segment acquired Definity Health Corporation (Definity). Definity is the national market leader in consumer-driven health benefit programs. This acquisition strengthened our position in the emerging consumer-driven health benefits marketplace. We paid \$305 million in cash in exchange for all of the outstanding stock of Definity. The purchase price and costs associated with the acquisition exceeded the preliminary estimated fair value of the net tangible assets acquired by approximately \$263 million. We have preliminarily allocated the excess purchase price over the fair value of the net tangible assets acquired to finite-lived intangible assets of \$60 million and associated deferred tax liabilities of \$21 million, and goodwill of \$224 million. The finite-lived intangible assets consist primarily of member lists, with an estimated weighted-average useful life of 15 years. The acquired goodwill is not deductible for income tax purposes. The results of operations and financial condition of Definity have been included in our consolidated financial statements since the acquisition date. The pro forma effects of the Definity acquisition on our consolidated financial statements were not material. Our preliminary estimate of the acquired net tangible assets of \$42 million, which is subject to further refinement, consisted mainly of cash, cash equivalents, accounts receivable, property and equipment and other assets partially offset by current liabilities.

For the year ended December 31, 2004, aggregate consideration paid or issued for smaller acquisitions accounted for under the purchase method was \$158 million. These acquisitions were not material to our consolidated financial statements.

#### 4 Cash, Cash Equivalents and Investments

As of December 31, the amortized cost, gross unrealized gains and losses, and fair value of cash, cash equivalents and investments were as follows (in millions):

2004	Amortized Cost	Gross Unrealized Gains		Gross Unrealized Losses		Fair Value	
Cash and Cash Equivalents	\$ 3,991	\$	_	\$	_	\$ 3,991	
Debt Securities — Available for Sale	7,723		205		(9)	7,919	
Equity Securities — Available for Sale	199		10		(2)	207	
Debt Securities — Held to Maturity	136		_		_	136	
Total Cash and Investments	\$12,049	\$	215	\$	(11)	\$12,253	
2003							
Cash and Cash Equivalents	\$ 2,262	\$		\$	_	\$ 2,262	
Debt Securities — Available for Sale	6,737		229		(6)	6,960	
Equity Securities - Available for Sale	173		9		(1)	181	
Debt Securities — Held to Maturity	74		-		-	74	
Total Cash and Investments	\$ 9,246	\$	238	\$	(7)	\$ 9,477	

As of December 31, 2004 and 2003, respectively, debt securities consisted of \$1,551 million and \$1,221 million in U.S. Government and Agency obligations, \$2,932 million and \$2,617 million in state and municipal obligations, and \$3,572 million and \$3,196 million in corporate obligations. At December 31, 2004, we held \$619 million in debt securities with maturities of less than one year, \$2,431 million in debt securities with maturities of one to five years, \$2,734 million in debt securities with maturities of five to 10 years and \$2,271 million in debt securities with maturities of more than 10 years.

As of December 31, 2004, we had no investments in a continuous unrealized loss position for 12 months or greater. Gross unrealized losses of \$11 million were largely due to interest rate increases and relate to debt securities with an aggregate fair value of \$1.8 billion at December 31, 2004.

We recorded realized gains and losses on sales of investments, excluding the UnitedHealth Capital disposition described below, as follows:

		nber 31,	<i>i</i> 1,		
(in millions)	2004	2003		2002	
Gross Realized Gains	\$ 37	\$ <b>4</b> 5	\$	57	
Gross Realized Losses	(18)	(23)		(75)	
Net Realized Gains (Losses)	\$ 19	\$ 22	\$	(18)	

During the first quarter of 2004, we realized a capital gain of \$25 million on the sale of certain UnitedHealth Capital investments. With the gain proceeds from this sale, we made a cash contribution of \$25 million to the United Health Foundation in the first quarter of 2004. The realized gain of \$25 million and the related contribution expense of \$25 million are included in Investment and Other Income in the accompanying Consolidated Statements of Operations.

## 5 Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill, by segment, during the years ended December 31, 2004 and 2003, were as follows:

(in millions)	Health Care Services	u	niprise	pecialized re Services	Ingenix	Cor	solidated
Balance at December 31, 2002 Acquisitions and Subsequent Payments	\$ 1,693 77	\$	698	\$ 363 46	\$ 609 23	\$	3,363 146
Balance at December 31, 2003 Acquisitions and Subsequent Payments	1,770 5.724		698 205	409	632 32		3,509 5.961
Balance at December 31, 2004	\$ 7,494	\$	903	\$ 409	\$ 664	\$	9,470

The weighted-average useful life, gross carrying value, accumulated amortization and net carrying value of other intangible assets as of December 31, 2004 and 2003 were as follows:

	Weighted-	December 31, 2004			December 31, 2003				
(in millions)	Average Useful Life	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value		
Customer Contracts and Membership Lists Patents, Trademarks	15 уеагъ	\$1,153	\$ (46)	\$1,107	\$ 93	\$ (6)	\$ 87		
and Technology Other	9 years 11 years	86 69	(39) (18)	47 51	73 57	(26) (11)	47 46		
Total	14 years	\$1,308	\$(103)	\$1,205	\$ 223	\$ (43)	\$ 180		

Amortization expense relating to intangible assets was \$62 million in 2004, \$18 million in 2003 and \$9 million in 2002. Estimated future amortization expense relating to intangible assets for the years ending December 31 are as follows: \$99 million in 2005, \$96 million in 2006, \$88 million in 2007, \$82 million in 2008, and \$80 million in 2009.

## 6 Medical Costs Payable

The following table shows the components of the change in medical costs payable for the years ended December 31:

(in millions)	2004	2003	2002
MEDICAL COSTS PAYABLE, BEGINNING OF PERIOD	\$ 4,152	\$ 3,741	\$ 3,460
ACQUISITIONS	1,040	165	180
REPORTED MEDICAL COSTS	•		100
Current Year	27,210	20.864	18,262
Prior Years	(210)	(150)	(70)
Total Reported Medical Costs	27,000	20,714	18,192
CLAIM PAYMENTS			,
Payments for Current Year	(23,173)	(17,411)	(15,147)
Payments for Prior Years	(3,479)	(3,057)	(2,944)
Total Claim Payments	(26,652)	(20,468)	(18,091)
MEDICAL COSTS PAYABLE, END OF PERIOD	\$ 5,540	\$ 4,152	\$ 3.741

## 7 Commercial Paper and Debt

Commercial paper and debt consisted of the following as of December 31:

_			2004			2003
(in millions)		arrying Value		Fair Value	Carrying Value	Fair Value¹
Commercial Paper	\$	273	\$	273	\$ 79	\$ 79
Floating-Rate Notes due November 2004		_		_	150	150
7.5% Senior Unsecured Notes due November 2005		400		417	400	438
5.2% Senior Unsecured Notes due January 2007		400		413	400	427
3.4% Senior Unsecured Notes due August 2007		550		546	_	. 127
3.3% Senior Unsecured Notes due January 2008		500		493	500	499
3.8% Senior Unsecured Notes due February 2009		250 .		247	_	133
4.1% Senior Unsecured Notes due August 2009		450		452	_	_
4.9% Senior Unsecured Notes due April 2013		450		453	450	454
4.8% Senior Unsecured Notes due February 2014		250		248	150	±.7±
5.0% Senior Unsecured Notes due August 2014		500		503	_	_
Total Commercial Paper and Debt	4	,023	,	4,045	1,979	9.047
Less Current Maturities		(673)	-	·,040 (690)	•	2,047
• • • • • • • • • • • • • • • • • • • •		• •			(229)	(229)
Long-Term Debt, less current maturities	\$ 3	3,350	\$ 3	3,355	\$1,750	\$1,818

<sup>1</sup> Estimated based on third-party quoted market prices for the same or similar issues.

As of December 31, 2004, our outstanding commercial paper had interest rates ranging from 2.3% to 2.4%. We have interest rate swap agreements that qualify as fair value hedges to convert the majority of our interest rate exposure from a fixed to a variable rate. The interest rate swap agreements have aggregate notional amounts of \$2.9 billion with variable rates that are benchmarked to the six-month LIBOR (London Interbank Offered Rate). At December 31, 2004, the rates used to accrue interest expense on these agreements ranged from 2.3% to 3.3%. The differential between the fixed and variable rates to be paid or received is accrued and recognized over the life of the agreements as an adjustment to interest expense in the Consolidated Statements of Operations.

In June 2004, we executed a \$1.0 billion five-year revolving credit facility to support our commercial paper program. This credit facility replaced our \$450 million revolving facility that was set to expire in July 2005, and our \$450 million, 364-day facility that was set to expire in July 2004. As of December 31. 2004, we had no amounts outstanding under this credit facility.

Our debt arrangements and credit facilities contain various covenants, the most restrictive of which require us to maintain a debt-to-total-capital ratio below 45% and to exceed specified minimum interest coverage levels. We are in compliance with the requirements of all debt covenants.

Maturities of commercial paper and debt for the years ending December 31 are as follows: \$673 million in 2005, \$950 million in 2007, \$500 million in 2008, \$700 million in 2009, and \$1,200 million thereafter.

We made cash payments for interest of \$100 million, \$94 million and \$86 million in 2004, 2003 and 2002, respectively.

## 8 Shareholders' Equity

#### REGULATORY CAPITAL AND DIVIDEND RESTRICTIONS

We conduct a significant portion of our operations through companies that are subject to standards established by the National Association of Insurance Commissioners (NAIC). These standards, among other things, require these subsidiaries to maintain specified levels of statutory capital, as defined by each state, and restrict the timing and amount of dividends and other distributions that may be paid to their parent companies. Generally, the amount of dividend distributions that may be paid by a regulated subsidiary, without prior approval by state regulatory authorities, is limited based on the entity's level of statutory net income and statutory capital and surplus. At December 31, 2004, approximately \$227 million of our \$12.3 billion of cash and investments was held by non-regulated subsidiaries. Of this amount, approximately \$37 million was segregated for future regulatory capital needs and the remainder was available for general corporate use, including acquisitions and share repurchases.

The agencies that assess our creditworthiness also consider capital adequacy levels when establishing our debt ratings. Consistent with our intent to maintain our senior debt ratings in the "A" range, we maintain an aggregate statutory capital and surplus level for our regulated subsidiaries that is significantly higher than the minimum level regulators require. As of December 31, 2004, our regulated subsidiaries had aggregate statutory capital and surplus of approximately \$4.1 billion, which is significantly more than the aggregate minimum regulatory requirements.

#### STOCK REPURCHASE PROGRAM

Under our board of directors' authorization, we maintain a common stock repurchase program. Repurchases may be made from time to time at prevailing prices, subject to certain restrictions on volume, pricing and timing. During 2004, we repurchased 51.4 million shares at an average price of approximately \$68 per share and an aggregate cost of approximately \$3.5 billion. As of December 31, 2004, we had board of directors' authorization to purchase up to an additional 54.6 million shares of our common stock.

#### PREFERRED STOCK

At December 31, 2004, we had 10 million shares of \$0.001 par value preferred stock authorized for issuance, and no preferred shares issued and outstanding.

## 9 Stock-Based Compensation Plans

As of December 31, 2004, we had approximately 49.2 million shares available for future grants of stock-based awards under our stock-based compensation plan including, but not limited to, incentive or non-qualified stock options, stock appreciation rights and restricted stock.

Stock options are granted at an exercise price not less than the fair value of our common stock on the date of grant. They generally vest ratably over four years and may be exercised up to 10 years from the date of grant. Activity under our stock option plan is summarized in the tables below (shares in millions):

	2004 Weighted-Average Shares Exercise Price		2003 Weighted-Average Shares Exercise Price			2002 Weighted-Average Shares Exercise Price			
Outstanding at Beginning of Year	87.3	\$	27	86.4	\$	21	76.7	\$	15
Granted	17.1	\$	72	18.4	\$	44	25.0	\$	38
Assumed in Acquisitions	7.6	\$	34	-	\$	-	0.9	\$	30
Exercised	(21.8)	\$	24	(15.3)	\$	15	(13.2)	\$	14
Forfeited	(2.1)	\$	35	(2.2)	\$	30	(3.0)	\$	20
Outstanding at End of Year	88.1	\$	37	87.3	\$	27	86.4	\$	21
Exercisable at End of Year	44.8	\$	22	42.7	\$	16	41.4	\$	12

As of December 31, 2004		Options Outstanding				Options Exercisable			
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Option Term (years)	_	nted-Average rcise Price	Number Exercisable	_	d-Average se Price		
\$ 0 - \$20	26.5	4.3	\$	11	26.2	\$	11		
\$21 - \$40	29.4	7.0	\$	34	12.2	\$	32		
\$41 - \$60	18.2	8.0	\$	48	6.2	\$	46		
\$61 - \$85	14.0	9.7	\$	75	0.2	\$	67		
\$ 0 - \$85	88.1	6.8	\$	37	44.8	\$	22		

We also maintain a 401(k) plan and an employee stock purchase plan. Activity related to these plans was not significant in relation to our consolidated financial results in 2004, 2003 and 2002.

To determine compensation expense related to our stock-based compensation plans under the fair value method, the fair value of each option grant is estimated on the date of grant using an option-pricing model. For purposes of estimating the fair value of our employee stock option grants, we utilized a Black-Scholes model during 2002 and a binomial model during 2003 and 2004. The principal assumptions we used in applying the option pricing models were as follows:

	2004	2003	2002
Risk-Free Interest Rate	3.3%	2.6%	2.5%
Expected Volatility	28.5%	30.9%	40.2%
Expected Dividend Yield	0.1%	0.1%	0.1%
Expected Life in Years	4.2	4.1	4.5

Information regarding the effect on net earnings and net earnings per common share had we applied the fair value expense recognition provisions of FAS No. 123 is included in Note 2.

#### 10 Income Taxes

The components of the provision for income taxes are as follows:

Year Ended December 31, (in millions)	2004	2003	2002
Current Provision			
Federal	<b>\$ 1,223</b>	\$ 932	\$ 675
State and Local	78	46	57
Total Current Provision	1,301	978	732
Deferred Provision	85	37	12
Total Provision for Income Taxes	\$ 1,386	\$1,015	\$ 744

The reconciliation of the tax provision at the U.S. Federal Statutory Rate to the provision for income taxes is as follows:

Year Ended December 31, (in millions)	2004	2003	2002
Tax Provision at the U.S. Federal Statutory Rate	\$ 1,391	\$ 994	\$ 734
State Income Taxes, net of federal benefit	54	29	33
Tax-Exempt Investment Income	(33)	(30)	(26)
Other, net	(26)	22	3
Provision for Income Taxes	\$ 1,386	\$1,015	<b>\$ 744</b>

The components of deferred income tax assets and liabilities are as follows:

The components of deferred income tax assets and habilities are as follows:		
As of December 31, (in milhons)	2004	2003
Deferred Income Tax Assets		
Accrued Expenses and Allowances	\$ 227	\$ 161
Unearned Premiums	57	28
Medical Costs Payable and Other Policy Liabilities	85	83
Long-Term Liabilities	78	49
Net Operating Loss Carryforwards	123	86
Other	31	42
Subtotal	601	449
Less: Valuation Allowances	(28)	(43)
Total Deferred Income Tax Assets	573	406
Deferred Income Tax Liabilities		
Capitalized Software Development	(223)	(186)
Net Unrealized Gains on Investments	(72)	(82)
Intangible Assets	(406)	(50)
Property and Equipment	(63)	(58)
Other	(16)	_
Total Deferred Income Tax Liabilities	(780)	(376)
Net Deferred Income Tax Assets (Liabilities)	\$ (207)	\$ 30

Valuation allowances are provided when it is considered more likely than not that deferred tax assets will not be realized. The valuation allowances primarily relate to future tax benefits on certain federal and state net operating loss carryforwards. Federal net operating loss carryforwards expire beginning in 2017 through 2023, and state net operating loss carryforwards expire beginning in 2005 through 2024.

We made cash payments for income taxes of \$898 million in 2004, \$783 million in 2003 and \$458 million in 2002. We increased additional paid-in capital and reduced income taxes payable by \$358 million in 2004, \$222 million in 2003, and by \$133 million in 2002 to reflect the tax benefit we received upon the exercise of non-qualified stock options.

Internal Revenue Service examinations for fiscal years 2000 through 2002 have been completed and the resulting settlements have been included in our 2004 consolidated operating results.

#### 11 AARP

In January 1998, we entered into a 10-year contract to provide health insurance products and services to members of AARP. These products and services are provided to supplement benefits covered under traditional Medicare. Under the terms of the contract, we are compensated for transaction processing and other services as well as for assuming underwriting risk. We are also engaged in product development activities to complement the insurance offerings under this program. Premium revenues from our portion of the AARP insurance offerings were approximately \$4.5 billion in 2004, \$4.1 billion in 2003 and \$3.7 billion in 2002.

The underwriting gains or losses related to the AARP business are directly recorded as an increase or decrease to a rate stabilization fund (RSF). The primary components of the underwriting results are premium revenue, medical costs, investment income, administrative expenses, member service expenses, marketing expenses and premium taxes. Underwriting gains and losses are recorded as an increase or decrease to the RSF and accrue to the overall benefit of the AARP policyholders, unless cumulative net losses were to exceed the balance in the RSF. To the extent underwriting losses exceed the balance in the RSF, we would have to fund the deficit. Any deficit we fund could be recovered by underwriting gains in future periods of the contract. To date, we have not been required to fund any underwriting deficits. The RSF balance is reported in Other Policy Liabilities in the accompanying Consolidated Balance Sheets. We believe the RSF balance is sufficient to cover potential future underwriting or other risks associated with the contract.

The following AARP program-related assets and liabilities are included in our Consolidated Balance Sheets:

	Balance	as of December 3	1,
(in millions)	2004		2003
Accounts Receivable	\$ 389	\$	352
Assets Under Management	\$ 1,883	\$	1,959
Medical Costs Payable	\$ 899	\$	874
Other Policy Liabilities	\$ 1,162	\$	1,275
Other Current Liabilities	\$ 211	\$	162

The effects of changes in balance sheet amounts associated with the AARP program accrue to the overall benefit of the AARP policyholders through the RSF balance. Accordingly, we do not include the effect of such changes in our Consolidated Statements of Cash Flows.

Pursuant to our agreement, AARP assets under management are managed separately from our general investment portfolio and are used to pay costs associated with the AARP program. These assets are invested at our discretion, within investment guidelines approved by AARP. We do not guarantee any rates of investment return on these investments and, upon transfer of the AARP contract to another entity, we would transfer cash equal in amount to the fair value of these investments at the date of transfer to that entity. Interest earnings and realized investment gains and losses on these assets accrue to the overall benefit of the AARP policyholders through the RSF. As such, they are not included in our earnings. Interest income and realized gains and losses related to assets under management are recorded as an increase to the AARP RSF and were \$103 million, \$101 million and \$102 million in 2004, 2003 and 2002, respectively. Assets under management are reported at their fair market value, and unrealized gains and losses are included directly in the RSF associated with the AARP program. As of December 31, 2004 and 2003, the amortized cost, gross unrealized gains and losses, and fair value of cash, cash equivalents and investments associated with the AARP insurance program, included in Assets Under Management, were as follows (in millions):

2004	Amortized Cost			Fair Value
Cash and Cash Equivalents	\$ 184	<b>\$</b> -	<b>\$</b> -	\$ 184
Debt Securities Available for Sale	1,664	37	(2)	1,699
Total Cash and Investments	\$1,848	\$ 37	\$ (2)	\$1,883
2003				
Cash and Cash Equivalents	\$ 218	\$ -	<b>\$</b> —	\$ 218
Debt Securities — Available for Sale	1,655	86	_	1,741
Total Cash and Investments	\$1,873	\$ 86	<b>\$</b> -	\$1,959

As of December 31, 2004 and 2003, respectively, debt securities consisted of \$809 million and \$711 million in U.S. Government and Agency obligations, \$20 million and \$16 million in state and municipal obligations and \$870 million and \$1,014 million in corporate obligations. At December 31, 2004, the AARP assets under management included debt securities of \$99 million with maturities of less than one year, \$813 million with maturities of one to five years, \$464 million with maturities of five to 10 years and \$323 million with maturities of more than 10 years.

#### 12 Commitments and Contingencies

#### LEASES

We lease facilities, computer hardware and other equipment under long-term operating leases that are noncancelable and expire on various dates through 2025. Rent expense under all operating leases was \$137 million in 2004, \$133 million in 2003 and \$132 million in 2002.

At December 31, 2004, future minimum annual lease payments, net of sublease income, under all noncancelable operating leases were as follows: \$126 million in 2005, \$116 million in 2006, \$106 million in 2007, \$78 million in 2008, \$62 million in 2009, and \$149 million thereafter.

#### SERVICE AGREEMENTS

We have noncancelable contracts for certain data center operations and support, network and voice communication services, and other services, which expire on various dates through 2009. Expenses incurred in connection with these agreements were \$265 million in 2004, \$256 million in 2003 and \$264 million in 2002. At December 31, 2004, future minimum obligations under our noncancelable contracts were as follows: \$103 million in 2005, \$55 million in 2006, \$14 million in 2007, \$9 million in 2008, and \$3 million in 2009.

#### **LEGAL MATTERS**

Because of the nature of our businesses, we are routinely made party to a variety of legal actions related to the design, management and offerings of our services. We record liabilities for our estimates of probable costs resulting from these matters. These matters include, but are not limited to, claims relating to health care benefits coverage, medical malpractice actions, contract disputes and claims related to disclosure of certain business practices. Following the events of September 11, 2001, the cost of business insurance coverage increased significantly. As a result, we have increased the amount of risk that we self-insure, particularly with respect to matters incidental to our business.

Beginning in 1999, a series of class action lawsuits were filed against us and virtually all major entities in the health benefits business. In December 2000, a multidistrict litigation panel consolidated several litigation cases involving UnitedHealth Group and our affiliates in the Southern District Court of Florida, Miami division. Generally, the health care provider plaintiffs allege violations of ERISA and RICO in connection with alleged undisclosed policies intended to maximize profits. Other allegations include breach of state prompt payment laws and breach of contract claims for failure to timely reimburse providers for medical services rendered. The consolidated suits seek injunctive, compensatory and equitable relief as well as restitution, costs, fees and interest payments. The trial court granted the health care providers' motion for class certification and that order was reviewed by the Eleventh Circuit Court of Appeals. The Eleventh Circuit affirmed the class action status of the RICO claims, but reversed as to the breach of contract, unjust enrichment and prompt payment claims. Through a series of motions and appeals, all direct claims against UnitedHealthcare have been compelled to arbitration. The trial court has denied UnitedHealthcare's further motion to compel the secondary RICO claims to arbitration and the Eleventh Circuit affirmed that order. A trial date has been set for September 2005. The trial court has ordered that the trial be bifurcated into separate liability and damage proceedings.

On March 15, 2000, the American Medical Association filed a lawsuit against the company in the Supreme Court of the State of New York, County of New York. On April 13, 2000, we removed this case to the United States District Court for the Southern District of New York. The suit alleges causes of action based on ERISA, as well as breach of contract and the implied covenant of good faith and fair dealing, deceptive acts and practices, and trade libel in connection with the calculation of reasonable and customary reimbursement rates for non-network providers. The suit seeks declaratory, injunctive and compensatory relief as well as costs, fees and interest payments. An amended complaint was filed on August 25, 2000, which alleged two classes of plaintiffs, an ERISA class and a non-ERISA class. After the Court dismissed certain ERISA claims and the claims brought by the American Medical Association, a third amended complaint was filed. On October 25, 2002, the court granted in part and denied in part our motion to dismiss the third amended complaint. On May 21, 2003, we filed a counterclaim complaint in this matter alleging antitrust violations against the American Medical Association and asserting claims based on improper billing practices against an individual provider plaintiff. On May 26, 2004, we filed a motion for partial summary judgment seeking the dismissal of certain claims and parties based, in part, due to lack of standing. On July 16, 2004, plaintiffs filed a motion for leave to file an amended complaint, seeking to assert RICO violations.

Although the results of pending litigation are always uncertain, we do not believe the results of any such actions currently threatened or pending, including those described above, will, individually or in aggregate, have a material adverse effect on our consolidated financial position or results of operations.

#### **GOVERNMENT REGULATION**

Our business is regulated at federal, state, local and international levels. The laws and rules governing our business and interpretations of those laws and rules are subject to frequent change. Broad latitude is given to the agencies administering those regulations. State legislatures and Congress continue to focus on health care issues as the subject of proposed legislation. Existing or future laws and rules could force us to change how we do business, restrict revenue and enrollment growth, increase our health care and administrative costs and capital requirements, and increase our liability in federal and state courts for coverage determinations, contract interpretation and other actions. Further, we must obtain and maintain regulatory approvals to market many of our products.

We typically have and are currently involved in various governmental investigations, audits, and reviews. These include routine, regular and special investigations, audits, and reviews by CMS, state insurance and health and welfare departments and state attorneys general, the Office of the Inspector General, the Office of Personnel Management, the Office of Civil Rights, the Department of Justice, and U.S. Attorneys. Such government actions can result in assessment of damages, civil or criminal fines or penalties, or other sanctions, including loss of licensure or exclusion from participation in government programs. We record liabilities for our estimate of probable costs resulting from these matters. Although the results of pending matters are always uncertain, we do not believe the results of any of the current investigations, audits or reviews, currently threatened or pending, individually or in the aggregate, will have a material adverse effect on our consolidated financial position or results of operations.

#### OTHER CONTINGENCIES

In 2002, Oxford, which we acquired on July 29, 2004, entered into agreements with two insurance companies that guaranteed cost reduction targets related to certain orthopedic medical services. In 2003, the insurers sought to rescind or terminate the agreements claiming various misrepresentations and material breaches of the agreements by Oxford. Pursuant to the agreements, Oxford filed claims to recover approximately \$50 million of costs incurred and expensed in excess of the cost reduction targets for the period from November 2002 to October 2004. An arbitration hearing with the insurance company holding a large majority of the coverage under the policies was held in January 2005, and a decision was issued on February 22, 2005, denying the insurer's ability to rescind or terminate its agreement. As a result of the decision, Oxford was awarded approximately \$30 million in net recoveries. The insurer has not yet indicated whether it will appeal this decision. Oxford will not record the net recoveries until all contingencies have been resolved. We believe that the remaining insurer's claims are also without merit, and we will vigorously seek to enforce our rights.

## 13 Segment Financial Information

Factors used in determining our reportable business segments include the nature of operating activities, existence of separate senior management teams, and the type of information presented to the company's chief operating decision-maker to evaluate our results of operations.

Our accounting policies for business segment operations are the same as those described in the Summary of Significant Accounting Policies (see Note 2). Transactions between business segments principally consist of customer service and transaction processing services that Uniprise provides to Health Care Services, certain product offerings sold to Uniprise and Health Care Services customers by Specialized Care Services, and sales of medical benefits cost, quality and utilization data and predictive modeling to Health Care Services and Uniprise by Ingenix. These transactions are recorded at management's best estimate of fair value, as if the services were purchased from or sold to third parties. All intersegment transactions are eliminated in consolidation. Assets and liabilities that are jointly used are assigned to each segment using estimates of pro-rata usage. Cash and investments are assigned such that each segment has minimum specified levels of regulatory capital or working capital for non-regulated businesses. The "Corporate and Eliminations" column also includes eliminations of intersegment transactions.

Substantially all of our operations are conducted in the United States. In accordance with accounting principles generally accepted in the United States of America, segments with similar economic characteristics may be combined. The financial results of UnitedHealthcare, Ovations and AmeriChoice have been combined in the Health Care Services segment column in the tables presented on the next page because these businesses have similar economic characteristics and have similar products and services, types of customers, distribution methods and operational processes, and operate in a similar regulatory environment, typically within the same legal entity.

The following table presents segment financial information as of and for the years ended December 31, 2004, 2003 and 2002 (in millions):

2004		ith Care ervices	ı	Uniprise		ecialized e Services	Ir	ngenix		orporate liminations	Cons	solidated
Revenues — External Customers Revenues — Intersegment Investment and Other Income	\$ 3	2,333 - 340	\$	2,688 647 30	\$	1,363 914	\$	446 224	\$	_ (1,785)	\$ 3	6,830
Total Revenues	\$ 3	2,673	\$	3,365	\$	18 2,295	\$	- 670	\$ (	_ (1,785)	\$ 3	388 17,218
Earnings From Operations Total Assets¹ Net Assets¹	\$ 2	2,810 3,799 3,138	\$ \$ \$	677 2,366 1,385	\$ \$ \$	485 1,269 765	\$ \$	129 971 795	\$ \$ \$	– (879) (879)	\$ 2	4,101 27,526 5,204
Purchases of Property, Equipment and Capitalized Software Depreciation and Amortization	\$ \$	147 173	\$ \$	112 95	\$ \$	56 44	\$ \$	35 62	\$ \$	-	\$ \$	350 374
2003												
Revenues — External Customers Revenues — Intersegment Investment and Other Income	\$ 24	4,592 - 215	\$	2,496 583 28	\$	1,077 787 14	\$	401 173	<b>\$</b> (	_ 1,543)	\$ 2	8,566
Total Revenues	\$ 24	1,807	\$	3,107	\$	1,878	\$	57 <b>4</b>	\$(	- 1,543)	\$ 2	257 8,823
Earnings From Operations Total Assets <sup>1</sup> Net Assets <sup>1</sup>	\$ 13	1,865 3,597 5,008	\$ <del>\$ \$</del>	610 2,024 1,116	\$ \$ \$	385 1,191 710	\$ \$	75 919 766	\$ \$ \$	(366) (347)	\$1	2,935 7,365 7,253
Purchases of Property, Equipment and Capitalized Software Depreciation and Amortization	\$ \$	122 116	\$ \$	130 86	\$ \$	48 40	\$	52 57	\$	_	\$	352
2002	Ψ	110	Ψ	00	φ	40	Φ	37	φ	_	Ф	299
Revenues — External Customers Revenues — Intersegment Investment and Other Income	\$ 21	,373 - 179	\$	2,175 523 27	\$	897 598 14	\$	355 136 —	<b>\$</b>	- 1,257) -	\$ 2	4,800 - 220
Total Revenues	\$ 21	,552	\$	2,725	\$	1,509	\$	491	\$(	1,257)	\$ 2	5,020
Earnings From Operations Total Assets <sup>1</sup> Net Assets <sup>1</sup>	\$ 10	.,328 ),522 1,379	\$ \$	517 <b>1</b> ,914 1,097	\$ \$ \$	286 974 602	\$ \$	55 902 763	<del>\$</del> \$ \$	_ (537) (517)	\$ 13	2,186 3,775 6,324
Purchases of Property, Equipment and Capitalized Software Depreciation and Amortization	\$ \$	129 102	\$ \$	159 69	<b>\$</b>	59 36	<b>\$</b>	72 48	\$ \$	- -	\$ \$	419 255

<sup>&</sup>lt;sup>1</sup> Total Assets and Net Assets exclude, where applicable, debt and accrued interest of \$4,054 million, \$1,993 million and \$1,775 million, income tax-related assets of \$353 million, \$269 million and \$389 million, and income tax-related liabilities of \$786 million, \$401 million and \$510 million as of December 31, 2004, 2003 and 2002, respectively.

## 14 Quarterly Financial Data (Unaudited)

	For the Quarter Ended						
(in millions, except per share data)	March 31	June 30	September 30	December 31			
2004							
Révenues	\$ 8,144	\$ 8,704	\$ 9,859	\$ 10.511			
Medical and Operating Expenses	\$ 7,268	\$ 7,759	\$ 8,767	\$ 9,323			
Earnings From Operations	\$ 876	\$ 945	\$ 1,092	\$ 1,188			
Net Earnings	\$ 554	\$ 596	\$ 698	\$ 739			
Basic Net Earnings per Common Share	\$ 0.92	\$ 0.98	\$ 1.09	\$ 1.14			
Diluted Net Earnings per Common Share	\$ 0.88	\$ 0.93	\$ 1.04	\$ 1.09			
2003							
Revenues	\$ 6,975	\$ 7,087	\$ 7,238	\$ 7,523			
Medical and Operating Expenses	\$ 6,322	\$ 6,378	\$ 6,475	\$ 6,713			
Earnings From Operations	\$ 653	\$ 709	\$ 763	\$ 810			
Net Earnings	<b>\$ 4</b> 03	\$ 439	<b>\$ 4</b> 76	\$ 507			
Basic Net Earnings per Common Share	\$ 0.68	\$ 0.74	\$ 0.81	\$ 0.87			
Diluted Net Earnings per Common Share	\$ 0.65	\$ 0.71	\$ 0.77	\$ 0.83			

<sup>1</sup> UnitedHealth Group acquired Oxford in July 2004 for total consideration of approximately \$5.0 billion and acquired MAMSI in February 2004 for total consideration of approximately \$2.7 billion. These acquisitions affect the comparability of 2004 financial information to prior fiscal years. The results of operations and financial condition of Oxford and MAMSI have been included in UnitedHealth Group's consolidated financial statements since the respective acquisition dates. See Note 3 for a detailed discussion of these acquisitions.

The management of UnitedHealth Group is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The company's internal control system is designed to provide reasonable assurance to our management and board of directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The company's internal control over financial reporting includes those policies and procedures that:

- > Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
- > Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- > Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2004. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework*. Based on our assessment and those criteria, we believe that, as of December 31, 2004, the company maintained effective internal control over financial reporting.

The company's independent registered public accounting firm has audited management's assessment of the effectiveness of the company's internal control over financial reporting as of December 31, 2004, as stated in the Report of Independent Registered Public Accounting Firm, appearing herein, which expresses unqualified opinions on management's assessment and on the effectiveness of the company's internal controls over financial reporting as of December 31, 2004.

February 28, 2005

William W. McGuire, MD Chairman and Chief Executive Officer

Stephen J. Hemsley
President and Chief Operating Officer

Patrick J. Erlandson Chief Financial Officer To the Board of Directors and Shareholders of UnitedHealth Group Incorporated and Subsidiaries:

We have audited the accompanying consolidated balance sheets of UnitedHealth Group Incorporated and Subsidiaries (the "Company") as of December 31, 2004 and 2003, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of UnitedHealth Group Incorporated and Subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2005, expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

DELOITTE & TOUCHE LLP Minneapolis, Minnesota February 28, 2005 To the Board of Directors and Shareholders of UnitedHealth Group Incorporated and Subsidiaries:

We have audited management's assessment, included in the accompanying Report of Management, that UnitedHealth Group Incorporated and Subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2004 of the Company and our report dated February 28, 2005 expressed an unqualified opinion on those financial statements.

DELOITTE & TOUCHE LLP Minneapolis, Minnesota February 28, 2005

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William W. McGuire, MD Chairman and Chief Executive Officer

Stephen J. Hemsley President and Chief Operating Officer

Patrick J. Erlandson Chief Financial Officer

David J. Lubben General Counsel and Secretary

Jeannine M. Rivet
Executive Vice President

R. Channing Wheeler Executive Vice President Reed V. Tuckson, MD Senior Vice President Consumer Health and Medical Care Advancement

L. Robert Dapper Senior Vice President Human Capital

John S. Penshorn Senior Vice President and Director, Capital Markets Communications and Strategy

Richard H. Anderson Executive Vice President, UnitedHealth Group, and Chief Executive Officer, Ingenix Tracy L. Bahl Chief Executive Officer Uniprise

William A. Munsell Chief Executive Officer Specialized Care Services

Lois Quam Chief Executive Officer Ovations

Robert J. Sheehy Chief Executive Officer UnitedHealthcare

Anthony Welters Chief Executive Officer AmeriChoice

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William C. Ballard, Jr.
Of Counsel
Greenebaum Doll & McDonald PLLC
A Louisville, Kentucky law firm

Richard T. Burke
Former Chief Executive Officer
and Governor
Phoenix Coyotes
A National Hockey League team

Stephen J. Hemsley President and Chief Operating Officer UnitedHealth Group

James A. Johnson
Vice Chairman
Perseus, LLC
A private merchant banking
and investment firm

Thomas H. Kean President Drew University Chairman, Board of Trustees, The Robert Wood Johnson Foundation

Douglas W. Leatherdale Former Chairman and Chief Executive Officer The St. Paul Companies, Inc. Insurance and related services William W. McGuire, MD Chairman and Chief Executive Officer UnitedHealth Group

Mary O. Mundinger, DrPH, RN Dean, School of Nursing and Centennial Professor in Health Policy, and Associate Dean, Faculty of Medicine Columbia University

Robert L. Ryan Senior Vice President and Chief Financial Officer Medtronic, Inc. A medical technology company

Donna E. Shalala, PhD President University of Miami

William G. Spears
Senior Principal
Spears Grisanti & Brown LLC
A New York City-based investment
counseling and management firm

Gail R. Wilensky, PhD Senior Fellow Project HOPE An international health foundation AUDIT COMMITTEE William C. Ballard, Jr. Thomas H. Kean Douglas W. Leatherdale

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William C. Ballard, Jr.
Douglas W. Leatherdale
William W. McGuire
William G. Spears

NOMINATING COMMITTEE William C. Ballard, Jr. Thomas H. Kean Douglas W. Leatherdale William G. Spears

## FINANCIAL PEREORMANCE AT A GLANCE

GROWTH & PROFITS — CONSOLIDATED (in millions, except per share data)	2004	2003	2002
Revenues	\$ 37,218	\$ 28,823	\$25,020
Earnings From Operations Operating Margin Return on Net Assets	\$ 4,101 11.0% 35.3%	\$ 2,935 10.2% 43.7%	\$ 2,186 8.7% 37.5%
Net Earnings Net Margin	\$ 2,587 7.0%	\$ 1,825 6.3%	\$ 1,352 5.4%
Diluted Net Earnings per Common Share	\$ 3.94	\$ 2.96	<b>\$</b> 2.13
GROWTH & PROFITS — BY SEGMENT (in millions)	2004	2003	2002
HEALTH CARE SERVICES			
Revenues Earnings From Operations Operating Margin Return on Net Assets UNIPRISE	\$ 32,673 \$ 2,810 8.6% 30.1%	\$ 24,807 \$ 1,865 7.5% 40.5%	\$ 21,552 \$ 1,328 6.2% 35.5%
Revenues Earnings From Operations Operating Margin Return on Net Assets SPECIALIZED CARE SERVICES	\$ 3,365 \$ 677 20.1% 58.2%	\$ 3,107 \$ 610 19.6% 55.2%	\$ 2,725 \$ 517 19.0% 48.7%
Revenues Earnings From Operations Operating Margin Return on Net Assets	\$ 2,295 \$ 485 21.1% 66.5%	\$ 1,878 \$ 385 20.5% 59.1%	\$ 1,509 \$ 286 19.0% 50.7%
Revenues Earnings From Operations Operating Margin Return on Net Assets	\$ 670 \$ 129 19.3% 16.7%	\$ 574 \$ 75 13.1% 9.7%	\$ 491 \$ 55 11.2% 7.6%
CAPITAL ITEMS			
(in millions, except per share data)	2004	2003	2002
Cash Flows From Operating Activities	\$ 4,135	\$ 3,003	\$ 2,423
Capital Expenditures	\$ 350	\$ 352	\$ 419
Consideration Paid or Issued for Acquisitions	\$ 7,782	\$ 590	\$ 869
Debt-to-Total-Capital Ratio	27.3%	27.8%	28.5%
Return on Shareholders' Equity	31.4%	39.0%	33.0%
Year-End Market Capitalization	\$ 56,603	\$ 33,896	\$25,005
Year-End Common Share Price	\$ 88.03	\$ 58.18	\$ 41.75

#### MARKET PRICE OF COMMON STOCK

The following table shows the range of high and low sales prices for the company's stock as reported on the New York Stock Exchange for the calendar periods shown through February 15, 2005.

These prices do not include commissions or fees associated with purchasing or selling this security.

High	Low
\$ 91.80	\$ 85.25
\$ 64.50	\$ 55.45
\$ 68.50	\$ 58.61
<b>\$ 74</b> .75	\$ 59.34
\$ 88.76	\$ 64.61
\$ 46.35	\$ 39.20
\$ 52.67	\$ 44.10
\$ 56.25	\$ 47.25
\$ 58.67	<b>\$ 47.58</b>
	\$ 91.80 \$ 64.50 \$ 68.50 \$ 74.75 \$ 88.76 \$ 46.35 \$ 52.67 \$ 56.25

As of February 15, 2005, the company had 14,227 shareholders of record.

## ACCOUNT QUESTIONS

Our transfer agent, Wells Fargo, can help you with a variety of shareholder-related services, including:

Change of address Lost stock certificates

Transfer of stock to another person

Additional administrative services

You can call our transfer agent toll free at: (800) 468-9716 or locally at (651) 450-4064.

You can write them at:

Wells Fargo Shareowner Services P.O. Box 64854 Saint Paul, Minnesota 55164-0854

Or you can e-mail our transfer agent at: stocktransfer@wellsfargo.com

#### INFORMATION ONLINE

You can view our annual report and obtain more information about UnitedHealth Group and its businesses via the Internet at: www.unitedhealthgroup.com

#### INVESTOR RELATIONS

You can contact UnitedHealth Group Investor Relations to order, without charge, financial documents such as the annual report and Form 10-K. You can write to us at:

Investor Relations, MN008-T930 UnitedHealth Group P.O. Box 1459 Minneapolis, Minnesota 55440-1459

## ANNUAL MEETING

We invite UnitedHealth Group shareholders to attend our annual meeting, which will be held on Tuesday, May 3, 2005, at 10 a.m. CDT, at UnitedHealth Group Center, 9900 Bren Road East, Minnetonka, Minnesota.

#### **DIVIDEND POLICY**

UnitedHealth Group's board of directors established the company's dividend policy in August 1990. The policy requires the board to review the company's financial statements following the end of each fiscal year and decide whether it is advisable to declare a dividend on the outstanding shares of common stock.

Shareholders of record on April 1, 2004, received an annual dividend for 2004 of \$0.03 per share. On February 1, 2005, the board approved an annual dividend for 2005 of \$0.03 per share. The dividend will be paid on April 18, 2005, to shareholders of record at the close of business on April 1, 2005.

# NEW YORK STOCK EXCHANGE — STOCK LISTING AND CORPORATE GOVERNANCE

The company's common stock is traded on the New York Stock Exchange (NYSE) under the symbol UNH. Pursuant to Section 303A.12(a) of the NYSE listed company manual, the company submitted an unqualified certification of its Chief Executive Officer to the NYSE in 2004. The company has also filed as exhibits to its Annual Report on Form 10-K for the year ended December 31, 2004, the Chief Executive Officer and Chief Financial Officer certifications required under the Sarbanes-Oxley Act.

UnitedHealth Group UnitedHealth Group Center 9900 Bren Road East Minnetonka, Minnesota 55343

www.unitedhealthgroup.com

